

4

Economic Report 2007/2008

Public Sector Finance



Overview

Fiscal policy continues to support economic growth...

Fiscal policy continues to assume a significant role in supporting economic growth. The public sector's contribution to aggregate demand remains high at 24.9% of Gross Domestic Product (GDP) in 2007, while its contribution to real GDP growth is expected to be 2.4 percentage points (2006: 24.0%; 1.6 percentage points). The fiscal stance adopted by the Government is in response to the demands of the economy and in line with

sound macroeconomic management objectives. The budgetary programmes and projects remain focused on generating activities that support new sources of growth, promote private business initiatives, improve overall economic efficiency as well as enhance the standard of living, especially of the lower income groups. In addition, measures are being taken to move the economy up the value chain as well as develop skilled, innovative and knowledgeable human capital.

Despite the increase in expenditure, the Government remains committed to fiscal consolidation through sound expenditure management and improvement in revenue collection. Fiscal prudence will continue to remain the underlying principle in

TABLE 4.1

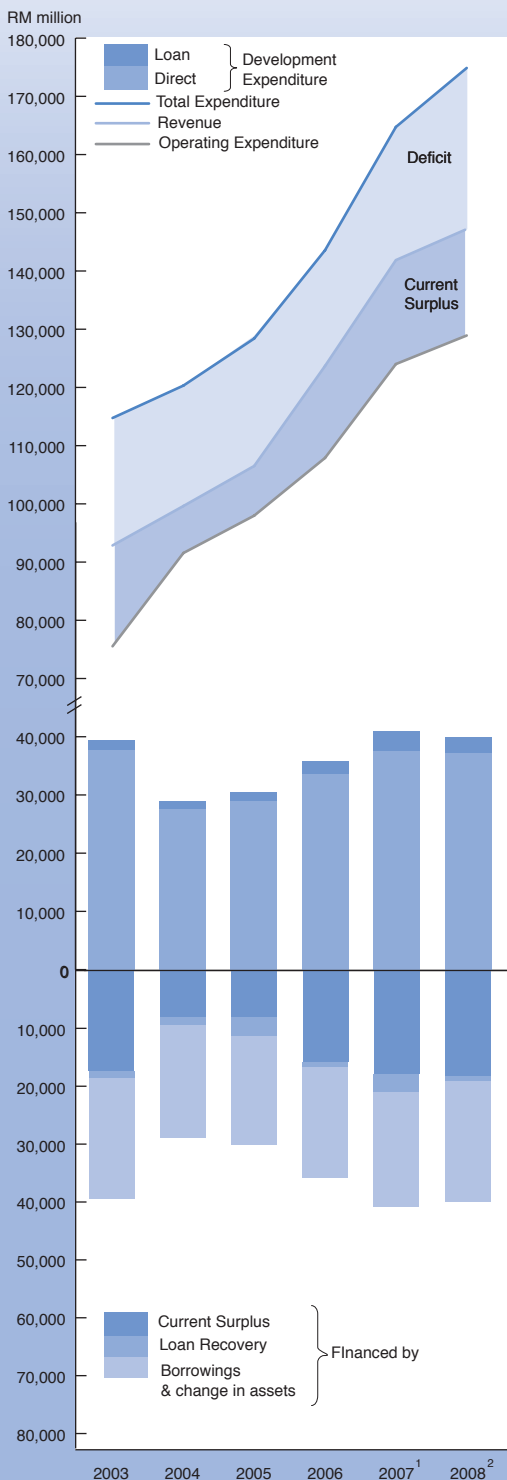
Federal Government Financial Position
2006-2008

	RM million			Change (%)		
	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²
Revenue	123,546	141,790	147,093	16.2	14.8	3.7
Operating expenditure	107,694	123,873	128,799	10.2	15.0	4.0
Current balance	15,852	17,917	18,294	85.2	13.0	2.1
Gross development expenditure	35,807	40,870	40,000	17.3	14.1	-2.1
Less: Loan recoveries	846	3,005	773	-74.0	255.2	-74.3
Net development expenditure	34,961	37,865	39,227	28.1	8.3	3.6
Overall balance	-19,109	-19,948	-20,933			
% of GDP	-3.3	-3.2	-3.1			

¹ Revised estimate.² Budget estimate, excluding 2008 tax measures.

CHART 4.1

Federal Government Finance

¹ Revised estimate.² Budget.

fiscal management, providing the Government the flexibility and capacity to respond to any vulnerabilities arising from any uncertainty.

Federal Government

Fiscal consolidation is on track...

In 2007, the Federal Government is expected to register a deficit of RM19,948 million (2006: RM19,109 million) or 3.2% of GDP, as shown in *Table 4.1*. While revenue collection is envisaged to increase in line with better economic performance, expenditure is also expected to increase partly due to the salary adjustment for civil servants, effective July 2007, as well as accelerated implementation of development projects following improved coordination among the various agencies.

Revenue

Revenue remains robust in line with better economic performance...

Federal Government revenue is estimated to increase by 14.8% to RM141,790 million or 22.7% of GDP in 2007 (2006: 16.2%; RM123,546 million; 21.6% of GDP), as shown in *Table 4.2*, on account of higher collection of tax and non-tax revenue. This is due to better economic performance, high oil prices, as well as improved tax administration and enforcement efforts. Tax revenue is expected to increase 11.0% to RM96,196 million, thereby contributing 67.8% of total revenue. Of this, direct taxes contribute RM70,116 million while indirect taxes RM26,080 million. Main components of **direct tax** revenue are corporate tax (RM30,821 million), petroleum income tax (PITA) (RM22,600 million) and individual income tax (RM12,154 million). In addition, the Government is also expected to collect substantial amount of revenue from stamp duties (RM3,037 million), real property gains tax (RPGT) (RM150 million) and cooperative income tax (RM139 million).

Indirect taxes are mainly from excise duties (RM8,500 million), sales tax (RM7,144 million) and service tax (RM3,300 million). In addition,

TABLE 4.2

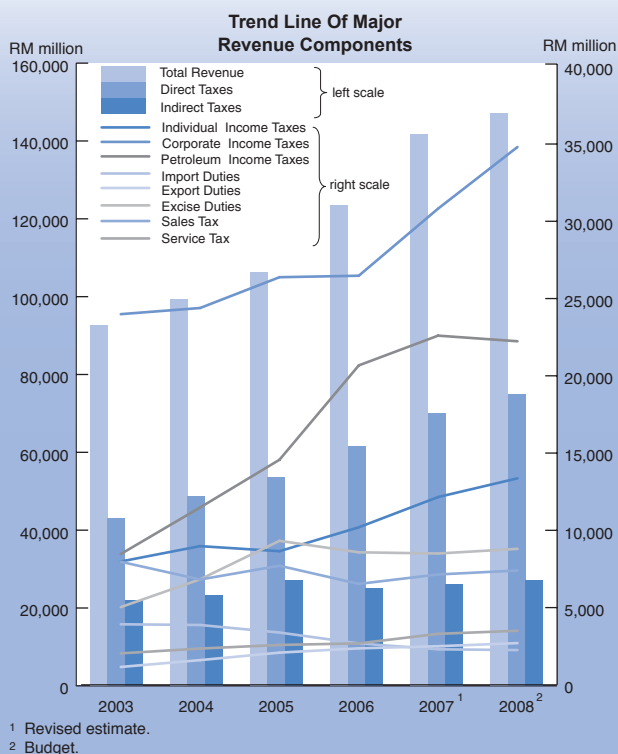
Federal Government Revenue 2006-2008

	RM million			Change (%)			Share (%)		
	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²
Tax revenue	86,630	96,196	101,995	7.5	11.0	6.0	70.1	67.8	69.3
Direct tax	61,572	70,116	74,915	15.0	13.9	6.8	49.8	49.5	50.9
of which:									
Companies	26,477	30,821	34,806	0.4	16.4	12.9	21.4	21.7	23.7
PITA ³	20,674	22,600	22,235	41.9	9.3	-1.6	16.7	15.9	15.1
Individuals	10,196	12,154	13,365	17.9	19.2	10.0	8.3	8.6	9.1
Indirect tax	25,058	26,080	27,080	-7.4	4.1	3.8	20.3	18.4	18.4
of which:									
Excise duties	8,577	8,500	8,800	-8.0	-0.9	3.5	6.9	6.0	6.0
Sales tax	6,532	7,144	7,400	-15.3	9.4	3.6	5.3	5.0	5.0
Non-tax revenue	36,916	45,594	45,098	43.6	23.5	-1.1	29.9	32.2	30.7
of which:									
Licences/permits	9,212	9,256	9,608	10.6	0.5	3.8	7.5	6.5	6.5
Investment income	24,794	33,568	32,568	67.0	35.4	-3.0	20.1	23.7	22.1
Total revenue	123,546	141,790	147,093	16.2	14.8	3.7	100.0	100.0	100.0
% of GDP	21.6	22.7	21.6						

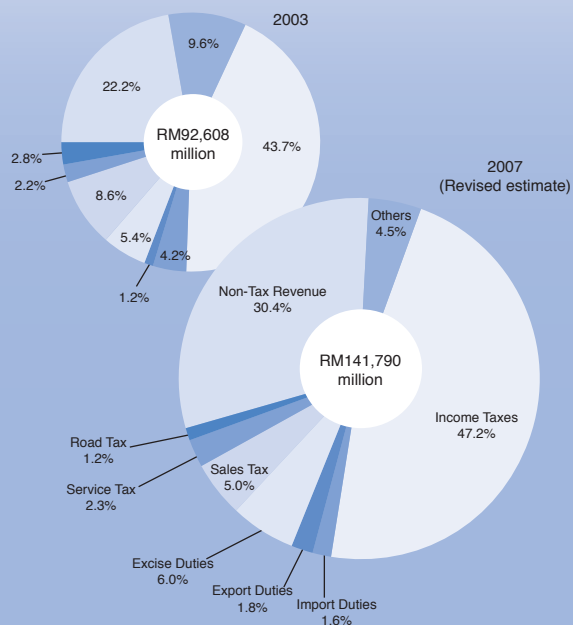
¹ Revised estimate.² Budget estimate, excluding 2008 tax measures.³ Petroleum Income Tax.

CHART 4.2

Federal Government Revenue



Major Components Of Revenue As Percentage Share To Total Revenue



indirect taxes also include import duties (RM2,300 million) mainly on motor vehicles and export duties (RM2,500 million), of which a significant amount is from petroleum and petroleum-related products. The collection of indirect taxes is expected to remain at 2006 level primarily due to the liberalisation of import duties consistent with Malaysia's commitment to regional and bilateral trade arrangements.

In 2007, **non-tax revenue** is estimated at RM45,594 million, an increase of 23.5% over 2006, and contributing 32.2% to total revenue. The main sources of non-tax revenue are dividend income mainly from Petroliam Nasional Berhad (PETRONAS) (RM24,000 million) as well as licenses and permits (RM9,256 million). Petroleum royalties and road tax, the major components of licences and permits, are expected to contribute RM4,230 million and RM1,683 million, respectively. Other sources of non-tax revenue include proceeds from securitisation of Government employees' housing loans (RM5,000 million) and dividend income from Khazanah Nasional Berhad (RM1,000 million).

In 2007 Budget, several tax measures were introduced to reduce the cost of doing business, improve the country's investment environment, enhance competitiveness as well as spur economic activities. These measures include the progressive reduction of corporate tax rate from 28% in 2006 to 27% this year and 26% in 2008, establishment of the Customs Appeal Tribunal as well as introduction of Customs Rulings and Advance Rulings in income tax administration to enhance transparency, thereby promoting greater certainty and compliance among taxpayers. Additional measures introduced in the current year to spur growth in targeted areas include the abolishment of RPGT and further reduction in road tax for certain categories of vehicles. To promote a healthy lifestyle and discourage smoking, further increases in duties for cigarettes and tobacco products were imposed.

Expenditure

Efficiency and effectiveness remain the focus of expenditure...

The overall thrust of Government expenditure is to create an enabling environment to boost private sector activities, enhance productive capacity, increase productivity, as well as improve the quality of life of the population. Budgetary allocation, therefore, is targeted at reducing the cost of doing business, improving the delivery system, developing human capital as well as upgrading infrastructure and public amenities. Rural development and poverty alleviation programmes are allocated a substantial sum for implementation of Federal Government projects as well as in the form of grants to state governments and local authorities.

To ensure efficient and effective utilisation of budget allocation, a directive was issued in May 2007 to all ministries, state governments, statutory bodies and local authorities providing specific guidelines and conditions with respect to extensions for contract works. The new guidelines will ensure that projects implemented adhere strictly to contract schedules mutually agreed upon. The extension of time for completion of Government projects will only be given for factors beyond the control of the contractors.

Total Federal Government expenditure for the year is estimated at RM164,743 million, an increase of 14.8% over 2006. Of this, RM123,873 million is for operating expenditure while the balance, RM40,870 million for development expenditure. Operating and development expenditure are expected to increase 15.0% and 14.1%, respectively. The major component of **operating expenditure** is emolument, accounting for 25.1% or RM31,142 million, as shown in *Table 4.3*. Emolument expenditure is expected to increase 9.2% over 2006. A significant portion of this increase is due to adjustments in salary and cost of living allowance (COLA).

TABLE 4.3

Federal Government Operating Expenditure by Object 2006-2008

	RM million			Change (%)			Share (%)		
	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²
Emolument	28,522	31,142	36,176	11.5	9.2	16.2	26.5	25.1	28.1
Debt service charges	12,495	13,127	13,101	7.7	5.1	-0.2	11.6	10.6	10.2
Grants to state governments	2,851	3,752	4,402	9.1	31.6	17.3	2.6	3.0	3.4
Pension and gratuities	7,008	8,049	8,412	2.9	14.9	4.5	6.5	6.5	6.5
Supplies and services	20,923	24,449	25,483	16.3	16.9	4.2	19.4	19.7	19.8
Subsidies	10,112	12,151	10,233	-24.5	20.2	-15.8	9.4	9.8	7.9
Grants to statutory bodies ³	9,195	10,985	12,728	10.9	19.5	15.9	8.5	8.9	9.9
Refunds and write-off	287	1,815	966	-0.3	532.4	-46.8	0.3	1.5	0.8
Others	16,301	18,403	17,298	45.8	12.9	-6.0	15.1	14.9	13.4
Total	107,694	123,873	128,799	10.2	15.0	4.0	100.0	100.0	100.0
% of GDP	18.8	19.8	18.9						

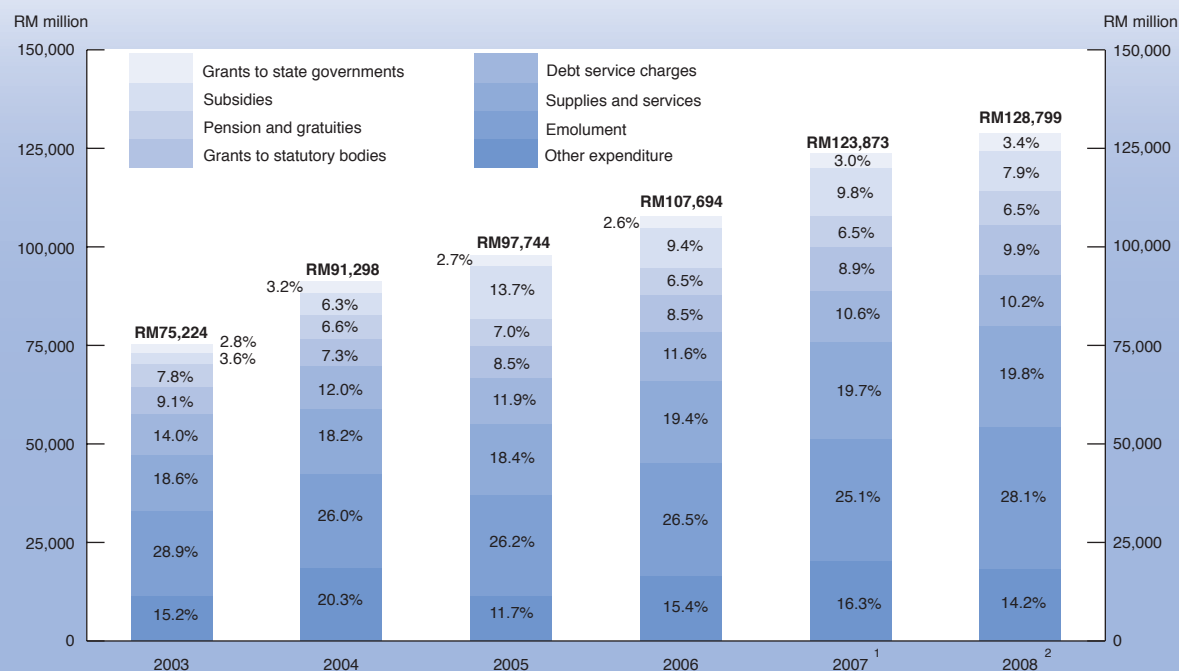
¹ Revised estimate.

² Budget estimate, excluding 2008 tax measures.

³ Includes emolument.

CHART 4.3

Federal Government Operating Expenditure



¹ Revised estimate.

² Budget.

Note: Figures in the block are % to total operating expenditure.

Expenditure on supplies and services is envisaged to increase 16.9% to RM24,449 million, representing 19.7% of total operating expenditure. Major expenditure items in this category include professional services, maintenance and repairs, rentals and materials. Debt service charges, another major component of operating expenditure, amount to RM13,127 million or 10.6% of total operating expenditure. Government subsidy payments are expected to remain significant during the year at RM12,151 million on account of high crude oil prices.

Federal Government grants to statutory bodies amounting to RM10,985 million are allocated to meet revenue shortfalls in statutory bodies, mainly for emolument as well as supply and services. Universities are the largest recipients of such grants amounting to RM6,647 million or 60.5% of total. Substantial allocations are also provided for pensions and gratuities (RM8,049 million), grants and transfers to state governments (RM3,752 million), scholarships and education assistance schemes (RM2,283 million) as well as for asset acquisition (RM2,543 million).

Government **development expenditure** is estimated to increase 14.1% to RM40,870 million (2006: 17.3%; RM35,807 million), as shown in *Table 4.4*. The **economic services** sector receives the largest allocation of RM19,124 million or 46.8% of total development expenditure. Of this, RM6,702 million is allocated to the transport sub-sector to finance various projects, such as trains, light-rail transits and railways (RM1,353 million) including the ongoing construction of Rawang-Ipoh double tracking project. Other major development projects include the construction and upgrading of airports (RM1,031 million), rural roads (RM780 million) as well as ports and jetties (RM276 million).

The trade and industry sub-sector is allocated RM4,364 million, an increase of 28.8% over 2006. The major development programmes of this sub-sector include improving infrastructure facilities in industrial estates (RM252 million), funding of strategic investments (RM150 million), increasing allocation to state development corporations (RM180 million) and strengthening the National Biotechnology Directorate (RM170 million) to

TABLE 4.4

**Federal Government Development Expenditure by Sector
2006-2008**

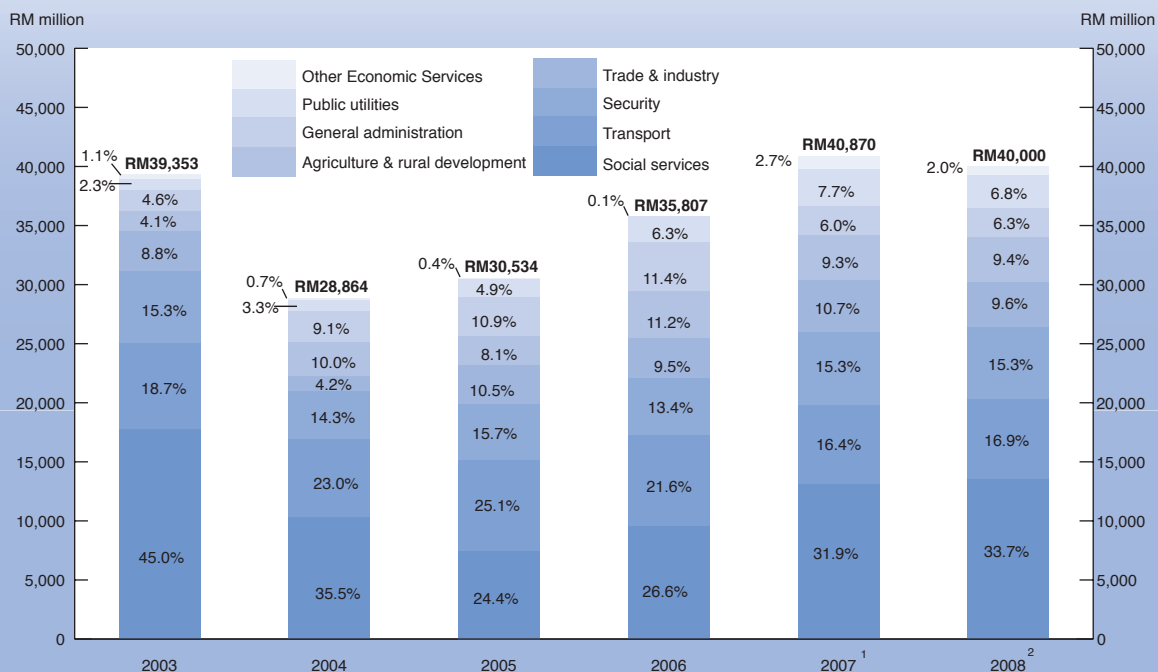
	RM million			Change (%)			Share (%)		
	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²
Economic services	17,404	19,124	17,883	16.4	9.9	-6.5	48.6	46.8	44.7
of which:									
Agriculture and rural development	3,999	3,817	3,742	61.1	-4.6	-2.0	11.2	9.3	9.4
Trade and industry	3,389	4,364	3,860	5.2	28.8	-11.5	9.5	10.7	9.7
Transport	7,751	6,702	6,777	1.2	-13.5	1.1	21.6	16.4	16.9
Social services	9,525	13,055	13,490	27.8	37.1	3.3	26.6	31.9	33.7
of which:									
Education and training	5,349	7,291	7,358	43.2	36.3	0.9	14.9	17.8	18.4
Health	1,298	1,496	1,949	6.4	15.3	30.3	3.6	3.7	4.9
Housing	1,347	1,977	1,744	24.5	46.8	-11.8	3.8	4.8	4.4
Security	4,803	6,258	6,099	0.0	30.3	-2.5	13.4	15.3	15.2
General administration	4,076	2,433	2,528	22.6	-40.3	3.9	11.4	6.0	6.3
Total	35,807	40,870	40,000	17.3	14.1	-2.1	100.0	100.0	100.0
% of GDP	6.3	6.5	5.9						

¹ Revised estimate.

² Budget estimate.

CHART 4.4

Federal Government Development Expenditure by Sector

¹ Revised estimate.² Budget.

Note: Figures in the block are % to total development expenditure.

promote new sources of growth. Emphasis is also given to further the development of small and medium enterprises (SMEs). Access to financing for the SMEs is enhanced through capital injection and loan to Bank Perusahaan Kecil dan Sederhana Malaysia Berhad (SME Bank) (RM155 million) and funding for strategic projects through Malaysian Venture Capital Management Berhad (RM100 million). In addition, RM408 million is allocated for capacity building in the tourism industry through projects such as the provision and upgrading of tourism facilities and eco-tourism development.

Expenditure on agriculture and rural development sub-sector amounts to RM3,817 million (2006: RM3,999 million). Among the initiatives undertaken include the enhancement of Fund for Food and Non-Food Agriculture Credit Scheme, projects relating to fisheries and livestock (RM439 million), land and regional development (RM387 million) as well as forestry (RM81 million). An allocation of

RM3,140 million is provided for the public utility and energy sub-sector to undertake projects such as improving water supply, sewerage and electricity to further improve the quality of life in rural areas. This constitutes an increase of 39.9% over the expenditure in 2006.

A total of RM13,055 million is allocated to the **social services** sector, an increase of 37.1% over 2006 with the education and training sub-sector receiving the largest share amounting to RM7,291 million. Priority is given to public higher education to increase the pool of skilled and knowledge workforce. An allocation of RM3,577 million is provided for the development and upgrading of existing public institutions of higher learning (IPTAs). In addition, two new universities, namely Universiti Malaysia Kelantan and Universiti Darul Iman in Terengganu, are being built with an initial allocation of RM32 million. Primary and secondary education receive RM1,441 million for various projects including

the construction of 102 secondary schools, 14 boarding schools, three sports schools, two technical and vocational schools as well as one matriculation college.

Industrial training programme, aimed at enhancing the skills of youth and school leavers, is allocated RM920 million. These include the construction of five new polytechnics in Hulu Terengganu, Jeli, Mersing, Nilai and Sandakan and upgrading of 12 existing facilities. In addition, two industrial training institutes (ILP) are being constructed in Marang and Kuala Krai with initial allocations of RM30 million and RM19.5 million, respectively. Four Advanced Technology Training Centres (ADTEC) are also being built in Taiping, Bintulu, Kemaman and Jerantut at a total cost of RM172 million. Meanwhile, the Government has also entrusted Majlis Amanah Rakyat (MARA) to build Institut Kemahiran MARA and Institut Kemahiran Tinggi MARA with an allocation of RM103 million.

The Government continues to give close attention to national security and public safety as reflected in the increase of expenditure for the **security** sector by 30.3% to RM6,258 million. Of this, the defence sub-sector receives RM4,401 million while the internal security sub-sector is allocated RM1,857 million. This is to enhance the capacity and capability of the defence forces, through upgrading of equipment and surveillance, as well as improving the skills of security personnel.

Financing

Financing requirements are mainly sourced domestically...

In terms of financing, the Government continues to adhere to prudent strategies to ensure that borrowings are primarily for financing development expenditure and are mainly sourced domestically from non-inflationary sources. Further, the bulk of loans are secured at fixed interest rates to minimise exposure to interest rates risks. The healthy domestic economy, characterised by high savings rate, low inflation and a surplus in the current account of the balance of payments provides ample liquidity in the banking and financial

TABLE 4.5

Federal Government Financing 2006-2007

	RM million		Share (%)	
	2006	2007 ¹	2006	2007 ¹
Gross borrowings	36,934	53,192	100.0	100.0
Domestic	36,100	53,000	97.7	99.6
Investment Issues	9,500	10,000	25.7	18.8
Government Securities	26,600	43,000	72.0	80.8
External	834	192	2.3	0.4
Market loans	-	-	-	-
Project loans	834	192	2.3	0.4
Repayments	22,237	32,009	100.0	100.0
Domestic	18,350	27,200	82.5	85.0
External	3,887	4,809	17.5	15.0
Net Borrowings	14,696	21,183		
Domestic	17,750	25,800		
External	-3,054	-4,617		
Change in assets²	4,413	-1,235		
Total	19,109	19,948		

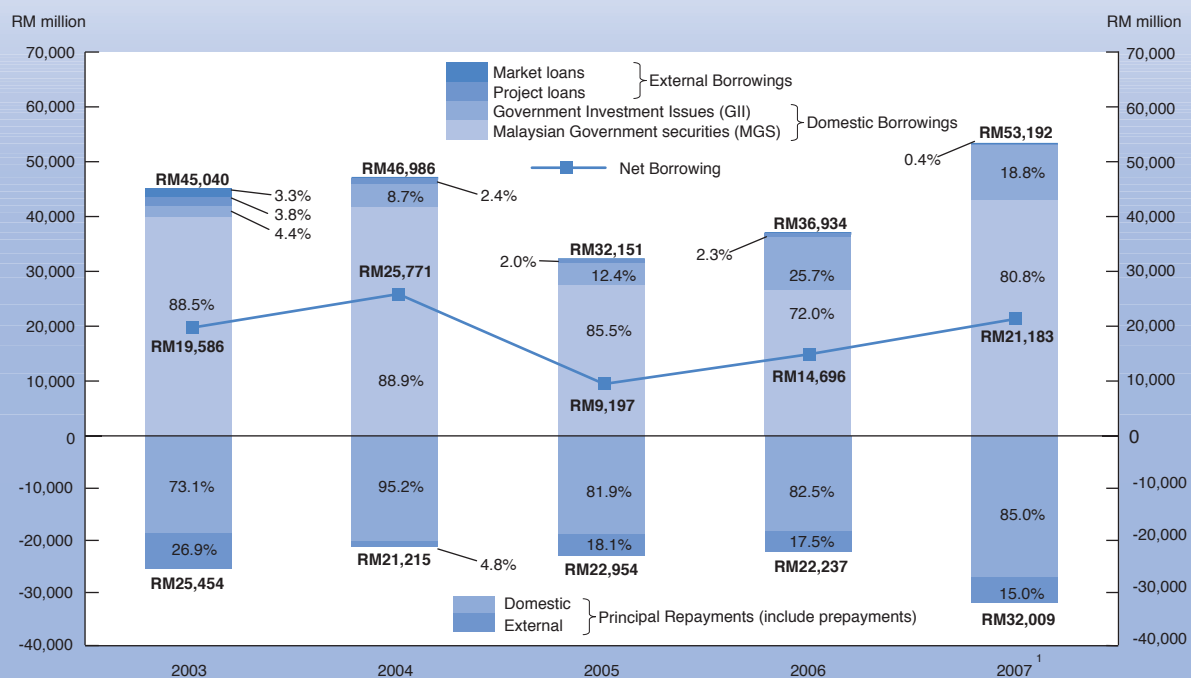
¹ Estimate.

² (+) indicates a drawdown of assets.

system to enable the Government to borrow, without crowding-out the private sector.

Total gross borrowings of the Federal Government for the year is expected to reach RM53,192 million, as shown in *Table 4.5*. Of the total, RM32,009 million is for repayment of existing debt while the balance of RM21,183 million constitutes additional borrowings for the year. The largest source of funding remains the issuance of Malaysian Government Securities (MGS) amounting to RM43,000 million in 2007. All MGS are issued through open tenders, of which RM13,000 million are new issues while RM30,000 million are re-openings. During the first half of the year, the coupon rates for new issues ranged between 3.502%–3.814% per annum, compared to 3.718%–4.709% in 2006. As at end-June 2007, the Employees Provident Fund (EPF) and commercial banks continued to be the major holders of MGS, accounting for 66.8% of the total outstanding. The Government is also expected to issue new Government Investment Issues (GIIs) up to RM10,000 million for the year.

CHART 4.5

Federal Government Borrowings

¹ Revised estimate.

Note: Figures in block and in positive scale are % to total gross borrowings.
Figures in block and in negative scale are % to total principal repayments.

As at end-June 2007, major investors were EPF and commercial banks, representing 63.5% of the total GIIs.

The Government is not envisaged to raise new funds from external sources except for drawdown from existing project loans totalling RM192 million from bilateral and multilateral sources. This is in line with the Government's objective to reduce external debt, thereby minimising exposure to foreign exchange risk. Existing project loans are used to finance ongoing projects and programmes, primarily related to education and training, water supply, sewerage and poverty eradication.

Debt

Government debt remains manageable...

Total outstanding debt of the Federal Government is estimated to increase to RM267,508 million as at end of 2007 (end-2006: RM242,225 million)

mainly due to higher domestic debt incurred during the year, as shown in *Table 4.6*. The ratio of Federal Government debt to GDP is expected to be marginally higher at 42.8% (end-2006: 42.3%). Debt service charges as a proportion of operating expenditure and revenue remain manageable at 10.6% and 9.3%, respectively in 2007. The Federal Government external debt as a percentage of total debt declined further to 7.6% (2006: 10.3%) due to payments and prepayments of external debts, amounting to RM4,809 million, through domestic borrowings. This is to take advantage of currently low domestic interest rates compared with the original rates of borrowings.

The **national debt**, comprising external debts of the Federal Government, Non-Financial Public Enterprises (NFPEs) and the private sector, is expected to decline to RM176,079 million or 28.2% of GDP as at end of 2007 (end-2006: RM185,279 million; 32.4% of GDP), as shown in *Table 4.7*. Federal Government's priority

TABLE 4.6

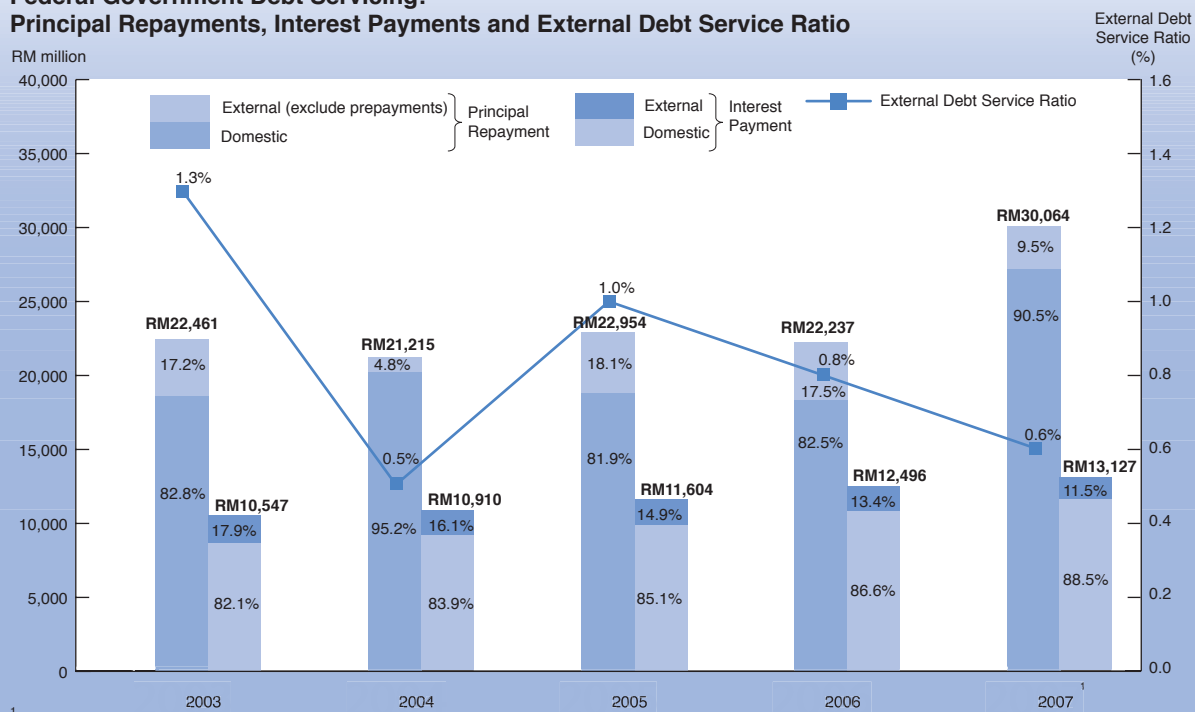
Federal Government Debt 2006-2007

	RM million		Share (%)		GDP (%)	
	2006	2007 ¹	2006	2007 ¹	2006	2007 ¹
Domestic debt	217,220	247,120	89.7	92.4	37.9	39.5
Treasury Bills	4,320	4,320	1.8	1.6	0.8	0.7
Investment Issues	19,600	28,000	8.1	10.5	3.4	4.5
Government Securities	174,300	191,700	72.0	71.7	30.4	30.7
Housing Loan Fund	19,000	23,100	7.8	8.6	3.3	3.7
External debt	25,005	20,388	10.3	7.6	4.4	3.3
Market loans	16,717	13,470	6.9	5.0	2.9	2.2
Project loans	8,288	6,918	3.4	2.6	1.4	1.1
Total	242,225	267,508	100.0	100.0	42.3	42.8

¹ Estimate.

CHART 4.6

Federal Government Debt Servicing: Principal Repayments, Interest Payments and External Debt Service Ratio



Note: Figures in block are % to total.

External Debt Service Ratio = Principal Repayments (exclude prepayments) and interest payments of external debt as % to export of goods and services.

TABLE 4.7

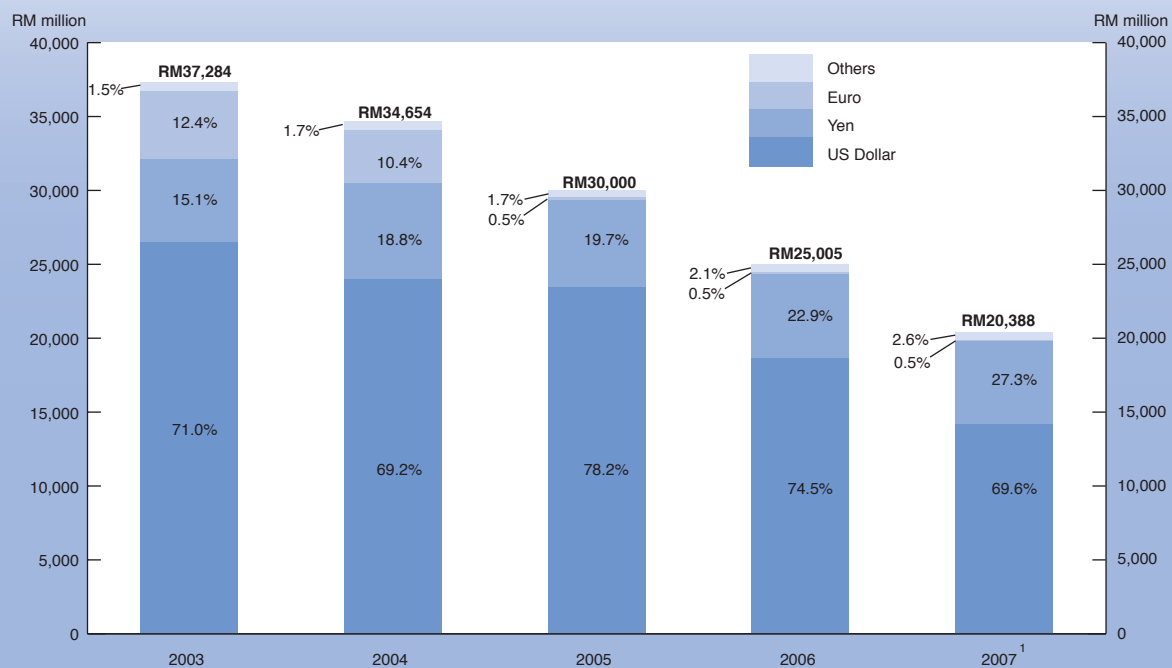
National Debt 2006-2007

	RM million		Share (%)		GDP (%)	
	2006	2007 ¹	2006	2007 ¹	2006	2007 ¹
Medium-and long-term debt	143,126	137,158	77.2	77.9	25.0	21.9
Public sector	75,897	67,983	41.0	38.6	13.3	10.9
Federal Government	25,005	20,388	13.5	11.6	4.4	3.3
NFPEs	50,892	47,595	27.5	27.0	8.9	7.6
Guaranteed	20,457	19,688	11.1	11.2	3.6	3.1
Non-guaranteed	30,435	27,907	16.4	15.8	5.3	4.5
Private sector	67,229	69,175	36.2	39.3	11.7	11.1
Short-term debt	42,153	38,921	22.8	22.1	7.4	6.2
Total	185,279	176,079	100.0	100.0	32.4	28.2

¹ Estimate.

CHART 4.7

Federal Government External Debt By Currency



¹ Revised estimate.

Note: Figures in the block are % to total.

to source funding domestically have helped contain the national debt level. Of the total external debt, 77.9% is of medium- and long-term maturity, thereby minimising bunching of repayments. The external debt service ratio of the country remains low at 4.2% in 2007, denoting the sustainability of export earnings to service external debt obligations.

State Governments

State governments record small deficit...

State governments' consolidated fiscal position is expected to record a deficit amidst increases in both revenue and expenditure. Total revenue is anticipated to increase 11.0% to RM14,146 million in 2007 (2006: 6.5%; RM12,742 million), as shown in *Table 4.8*. The state governments' own sources of revenue constitutes 76.4%, or RM10,812 million, of the total revenue while the balance comprises various grants from the Federal Government. Royalties from petroleum and forestry as well as land premiums and taxes constitute a major portion of state governments'

revenue amounting to RM4,090 million or 28.9% of total. Other sources of revenue include licensing fees, permits and investment income. State governments continue to enhance revenue collection efforts, with emphasis on recovery of arrears on land taxes.

The state governments' operating and development expenditure is expected to increase 23.5% to RM14,787 million in 2007 (2006: 12.0%; RM11,970 million). Operating expenditure is estimated at RM7,611 million or 51.5% of total spending, an increase of 14.1% over 2006. The significant increase is due mainly to salary adjustments. Meanwhile, development expenditure is also anticipated to increase 35.5% to RM7,176 million or 48.5% of total expenditure on account of higher provisions for housing as well as public infrastructure and amenities. The higher operating and development expenditure will lead to a deficit in the overall balance of state governments financial position amounting to RM589 million compared with the surplus of RM1,174 million in 2006. As in previous years, the state governments' deficit will be financed by loans from the Federal Government as well as through the use of their financial assets.

TABLE 4.8

Consolidated State Governments Financial Position 2006-2007

	RM million		Change (%)	
	2006	2007 ¹	2006	2007 ¹
Current Account				
Revenue	12,742	14,146	6.5	11.0
Operating expenditure	6,673	7,611	8.6	14.1
Current account balance	6,069	6,535	4.2	7.7
Development account				
Gross development expenditure	5,297	7,176	16.5	35.5
Development fund	5,020	6,646	18.9	32.4
Water supply fund	277	530	-15.3	91.3
Less: Loan recoveries	402	51	98.8	-87.2
Net development expenditure	4,895	7,124	12.6	45.5
Overall balance	1,174	-589		
% of GDP	0.2	-0.1		

¹ Revised estimate.

General Government

The fiscal position of general government, comprising the consolidated accounts of the Federal Government, state governments, statutory bodies and local authorities, after netting out intra-general government transfers and lending, is expected to register a deficit of RM21,710 million or 3.5% of GDP in 2007 (2006: -RM16,267 million; -2.8%), as shown in *Table 4.9*. This is higher than the Federal Government deficit of RM19,948 million or 3.2% of GDP, mainly due to a substantial amount of deficit incurred by statutory bodies and state governments. For 2007, the Federal Government allocates RM10,985 million through operating expenditure to statutory bodies and RM3,752 million to state governments, as shown in *Table 4.3*.

TABLE 4.9

Consolidated General Government Financial Position 2006-2008

	RM million			Change (%)		
	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²
Current account						
Revenue	143,599	160,425	167,755	16.2	11.7	4.6
Operating expenditure	118,913	135,490	141,821	11.0	13.9	4.7
Current account balance	24,686	24,935	25,934	50.0	1.0	4.0
Development expenditure	40,953	46,645	47,764	32.2	13.9	2.4
Overall balance	-16,267	-21,710	-21,830			
% of GDP	-2.8	-3.5	-3.2			

¹ Revised estimate.

² Budget estimate, excluding 2008 tax measures.

Non-Financial Public Enterprises

NFPEs register higher current surplus...

The consolidated revenue of the NFPEs is expected to rise by 4.5% to RM283,105 million, on account of high petroleum prices, greater demand for energy and vibrant business environment. The marginal growth in operating expenditure at 5.0% is the result of the successful transformation exercise of major NFPEs, which has brought about greater operating efficiencies and effectiveness as well as enhanced capacity to support expanding business activities. The operating surplus is therefore expected to be higher by 2.7% to RM62,101 million, contributed mainly by three major NFPEs, namely PETRONAS, Tenaga Nasional Berhad (TNB) and Telekom Malaysia Berhad (TM).

Capital expenditure of the NFPEs is estimated to expand significantly by 20.8% to RM55,196 million, largely due to increases in domestic and overseas investments. While NFPEs actively undertake their own domestic projects to complement the Ninth Malaysia Plan initiatives, they also venture overseas as part of their globalisation strategy to boost future earnings, especially in markets with high potential. The NFPEs that are expected to register significant increases in their capital

outlay include PETRONAS, TM, United Engineers Malaysia Berhad and Malaysia Airports Holdings Berhad, in efforts to meet greater demand and serve wider business interests.

The overall financial position of the NFPEs as a group is expected to register a lower surplus of RM6,905 million or 1.1% of GDP in 2007, a decrease of 53.2% over 2006. The lower surplus is due to slower increase in revenue and higher growth in development expenditure.

TABLE 4.10

Consolidated NFPEs Financial Position¹ 2006-2007

	RM million		Change (%)	
	2006	2007 ²	2006	2007 ²
Revenue	270,895	283,105	11.3	4.5
Current expenditure	210,451	221,004	13.4	5.0
Retained income	60,444	62,101	4.4	2.7
% of GDP	10.6	9.9		
Development expenditure	45,692	55,196	32.9	20.8
Overall balance	14,752	6,905	-37.3	-53.2
% of GDP	2.6	1.1		

¹ Refer to 30 major NFPEs.

² Revised estimate.

In 2007, PETRONAS is envisaged to register higher revenue due to increased sales volume and prices. The revenue growth is essentially attributed to increased sales of petroleum and petrochemical products, crude oil and liquefied natural gas (LNG) which together account for 82% of total revenue. Increasing demand for oil, coupled with supply disruptions and Organization of the Petroleum Exporting Countries (OPEC) production cutbacks has kept oil prices at high levels, triggering greater demand for oil exploration and production activities. However, the supply of both experienced technical personnel and drilling rigs are no longer sufficient to meet increasing demand, contributing to escalation of operating and capital costs. As a result, the operating surplus is expected to decline, albeit marginally.

As for capital expenditure, PETRONAS continues to invest in both upstream and downstream activities, especially upgrading and refurbishing existing platform facilities to prolong their life span. Capital investments are largely incurred in exploration and production, logistics and maritime as well as business activities such as petrochemical, oil, gas and properties. One such investment, the first in Malaysia, is the deepwater floating, production, storage and offloading (FPSO) vessel in Kikeh, off Sabah. It is designed to bring in oil or gas from the nearby platform, process and store the commodity before offloading to tankers. The vessel eliminates the need to lay expensive long distance pipeline from platform to the terminal onshore. Other significant investments include acquiring 10% shares in Cairn India Limited which has several oil exploration and production facilities in India, and the construction of Sabah Oil and Gas Terminal, expected to be operational by January 2010. During the year, PETRONAS signed new sales and purchase agreements to supply LNG to Japan and China. This is a major breakthrough into China's energy sector, which has vast potentials.

PETRONAS's total borrowings for the year are expected to decline, leading to improvement in gearing ratios. Debts are mainly denominated in United State dollar (USD) (73%) and domestic currency (26.4%).

TM continues to expand its business, focusing on mobile and fixed line services enhancement, regional expansion, better cost and expenditure management as well as increasing execution capability, as outlined in its Performance Improvement Programme. These initiatives are expected to increase revenue, largely from international and domestic mobile operations. However, earnings from domestic fixed line operations have been on the decline, due to lower tariffs and continued migration of users from fixed line to mobile and Voice over Internet Protocol (VoIP) services. In addition, stiff competition from existing and new players has also contributed to the decline. One of the strategies adopted by TM to address this issue is through enhancing broadband-related products and services. To meet the demand in high growth markets, TM has also expanded its mobile operations, particularly in Indonesia, Bangladesh, Sri Lanka and India resulting in an increase in its operating expenditure.

TM's development expenditure is expected to be channelled to broaden coverage and expand capacity of its international mobile operations. These ventures are to be funded through internal sources and external borrowings by its overseas subsidiaries. Major ongoing projects that are being undertaken include expansion, enhancement and development of its cellular network. A consortium of 17 major international telecommunication service providers, led by TM, will build the Asia-America Gateway (AAG) Cable Network System linking the South East Asian region directly to the United States. The AAG project, expected to be operational by December 2008, will enhance broadband capacity of the region as well as provide an alternative link for internet traffic to existing cable systems, such as the Asia Pacific Cable Network 2 (APCN 2) which was disrupted during the earthquake in Taiwan last year.

The revenue performance of TNB is expected to improve, given the tariff increase in 2006 and greater demand for electricity from commercial and industrial sectors. The improved earnings of the company have allowed TNB to upgrade power lines and enhance systems reliability and quality of services. Numerous cost management strategies

TABLE 4.11

Consolidated Public Sector Financial Position 2006-2008

	RM million			Change (%)		
	2006	2007 ¹	2008 ²	2006	2007 ¹	2008 ²
Revenue	101,955	116,498	123,967	7.4	14.3	6.4
Operating expenditure	117,721	134,942	140,552	10.4	14.6	4.2
NFPEs current surplus	100,670	105,302	104,904	18.5	4.6	-0.4
Public sector current balance	84,904	86,858	88,319	15.8	2.3	1.7
Development expenditure	86,534	101,761	90,085	31.0	17.6	-11.5
General government	40,842	46,565	47,606	28.9	14.0	2.2
NFPEs	45,692	55,196	42,479	32.9	20.8	-23.0
Overall balance	-1,630	-14,903	-1,766			
% of GDP	-0.3	-2.4	-0.3			

¹ Revised estimate.

² Budget estimate, excluding 2008 tax measures.

to improve services, increase productivity and enhance value creation are also being initiated. One of the initiatives is the implementation of a remote meter reading system to gather information from 60,000 TNB's commercial customers, who presently contribute towards 80% of its annual revenue. The information gathered would allow TNB to compile data on consumption patterns, which will contribute towards more efficient power planning, generation and usage. Operating expenses is expected to increase, partly due to additional payments to independent power producers (IPPs), following the commissioning of the second unit of Tanjung Bin power plant. However, lower general expenses and better recovery of bad debts are expected to moderate the level of increase.

Capital expenditure is expected to focus on new supply and system improvement programmes to enhance power generation, transmission and distribution. These projects include upgrading of existing power stations in Port Dickson and Paka, substations, intake stations and transmission lines, as well as enhancing power distribution through Northern and East West grid in Sabah. The financing requirements of the company are envisaged to be sourced mainly from the domestic market. Currently, domestic debt constitutes 55% of TNB's total borrowings, while foreign debt, amounting to 45% of total, is denominated mainly in USD and yen.

Consolidated Public Sector

In 2007, the consolidated public sector current balance is estimated to be at RM86,858 million, an increase of 2.3% (2006: RM84,904 million; 15.8%), mainly on account of higher current surplus of NFPEs. However, since operating and development expenditure is expected to increase at a faster rate than revenue, the consolidated public sector overall balance will record a deficit of RM14,903 million or 2.4% of GDP (2006: -RM1,630 million; -0.3% of GDP), as shown in *Table 4.11*.

Outlook for 2008

Fiscal consolidation continues...

The fiscal position of the Federal Government is expected to remain manageable in 2008 on account of a more favourable economic outlook. The thrust of fiscal policy will continue to emphasise efficiency and effectiveness as well as value-for-money spending. While the Government continues to pursue fiscal consolidation, it will not be at the expense of economic growth. In 2008, the fiscal deficit is projected to further decline to 3.1% of GDP.

GLC TRANSFORMATION: AN UPDATE¹

Introduction

Government-Linked-Companies (GLCs) and Government-Linked-Investment-Companies (GLICs) refer to business entities in which the Government has a controlling stake.² The controlling stake enables the Government to, among others, appoint members of the board of directors, nominate senior management staff as well as provide policy direction. While GLCs undertake business activities, GLICs on the other hand, act as an investment arm of the Government, investing in selected and strategic companies, including investment in GLCs. Together, they contribute significantly to Malaysia's economic development.

There are 47 GLCs listed on Bursa Malaysia, accounting for 7.2% of the total number of listed companies and 34.9% of market capitalisation as at 18 May 2007. The market capitalisation of GLCs relative to the Kuala Lumpur Composite Index (KLCI) is even higher at 55% even though GLCs comprise only 23 of the 100 companies forming the KLCI.

In 2006, expenditure of listed GLCs on fixed capital investment amounted to about RM13.8 billion, representing 18% of national Gross Fixed Capital Formation. The higher capital investment of GLCs relative to other companies is partly attributed to their high capital intensity ratios. GLCs remain the primary providers of utility and infrastructure services including electricity, telecommunications, postal, airlines, airports, public transportation, water and sewerage as well as banking and finance. Apart from undertaking business activities to provide acceptable returns to the shareholders, both GLCs and GLICs play an important role to enhance the capacity and capability of Bumiputeras to undertake business activities, especially by becoming vendors and suppliers to these companies. In terms of employment, GLCs employed 325,722 personnel or about 3% of the national workforce in 2006.

Transformation Initiatives

Over the years, especially after the 1997/1998 Asian financial crisis, the performance of GLCs has been relatively weak. A study on the 15 largest GLCs, which represent approximately 65% of the market capitalization of all listed GLCs, indicates only seven companies managed to register economic profits in 2004.³ Also, in the last 15 years GLCs have been laggards in almost all key financial and operational indicators, prompting the Government to initiate programmes to transform GLCs to become high performance companies and meet the expectations of stakeholders, particularly the Government.

This transformation, initiated in May 2004, was followed by the launching of the GLC Transformation Manual in July 2005. The Manual containing Policy Thrusts and Transformation Programmes, outlines various measures to enhance the effectiveness and capability of the board of directors, review and revamp procurement policy and procedures, improve performance management practices, enhance regulatory environment, intensify continuous operational improvement, clarify social obligations, enhance the capabilities of GLC leaders and managers as well as improve capital management practices.

GLC transformation programmes encompass four phases spanning a 10-year period (from the middle of 2004 until 2015), as shown in *Table 1*. The first phase of the programme, completed in 2005, focused on mobilizing, diagnosing, planning and initiating specific programmes for GLC transformation to enable top management and employees to be cognisant of the direction and expectations of the Government. Programmes and initiatives outlined during this phase included such measures as constructing key performance indicators, reforming the composition of board of directors, revamping Khazanah Nasional Berhad and enhancing leadership capabilities of GLCs. The second phase was completed in December 2006 with the key objective of generating momentum for GLC transformation. The transformation programme has since entered its third phase effective January 2007, with the target of entrusting GLCs to deliver tangible and sustainable results over the medium term.

¹ This Box Article is prepared based on inputs provided by Transformation Management Office, Khazanah Nasional Berhad.

² As at 31 July 2007, five entities are categorized as GLICs: Employees Provident Fund, Khazanah Nasional Berhad, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji and Permodalan Nasional Berhad.

³ Economic profit is a measure of returns on invested capital after provisioning for cost of capital.

Table 1**Four Phases of the GLC Transformation Programmes**

Phase 1: Mobilization, Diagnosis and Planning	Phase 2: Generate Momentum	Phase 3: Tangible Results	Phase 4: Full National Benefits
Period: Middle 2004-2005 (14 months)	Period: Middle 2005-2006 (12-17 months)	Period: 2007-2010 (3 years)	Period: 2010-2015 (5 years)
Measures: • KPI-PLCs • Performance Contracts • Board Composition Reform • Revamp of Khazanah • GLC Leadership Change	Measures: • Issuance of Transformation Manual (29 July 2005) • Laying out Policy Guidelines • Implementation of Programmes and Initiatives laid out in the Transformation Manual	Measure: • Continuation of the implementation of programmes and initiatives laid out in the Transformation Manuals and guidelines	Measure: • Continuation of the implementation of programmes and initiatives laid out in the Transformation Manuals and guidelines
Targeted outcomes: • Diagnosis of GLCs conducted • Determination of Policy Principles • Initial 2004 initiatives launched	Targeted outcomes: • 2005/06 initiatives implemented • Full roll-out in place • Key policies endorsed and executed upon • Early fruits of sustainable improvements	Targeted outcomes: • Tangible and sustained benefits across all GLCs • Visible benefits to all stakeholders, e.g. customers, vendors, employees, etc • Large scale strategic and financial changes made • Material changes to boards	Targeted outcomes: • 2-3 GLCs will be true regional champions • Most GLCs performing at par with competitors

Source: Adaptation from Summary of Transformation Manual, the PCG, March 2006.

The final phase (phase 4) will commence in 2010 and is scheduled for completion in 2015. It is envisaged by then some of the GLCs will become regional champions, operating competitively like their counterparts in the private sector.

The transformation of GLCs is expected to generate benefits to at least five stakeholders – customers, employees, suppliers, Bumiputera business community as well as other private companies operating within the same industries. More efficient and competitive GLCs are expected to provide higher quality goods and better services to customers in addition to providing better job prospects for both existing and potential employees. GLCs that are more dynamic will also help to increase the level of competition thus benefiting the entire economy. In addition, more competitive GLCs will spur the Bumiputera business community to continuously improve and enhance their skills and capabilities as businesses become more transparent and merit-based. Details of benefits arising from GLC transformation are summarized in *Table 2*.

Table 2

Benefits of GLC Transformation to Stakeholders

Key stakeholders	Benefits
Customers	- Higher quality of goods and services - Better value-for-money of purchases from more productive and efficient GLCs
Employees	- Better job prospect and human capital development - Increase productivity while drive out inefficiency
Bumiputera Community	- Increased GLC performance pushes the development of a more competitive Bumiputera business community - Improvement in the skills of Bumiputera employees - Improvement in the capability of Bumiputera suppliers
Suppliers	- Increased transparency with merit-based procedures favouring the highest value-for-money suppliers - Reduce leakages, inefficiencies and corruption
Other Private Businesses	Increased pressure for other private businesses to remain competitive thereby increasing overall industry standards

Source: Summary of Transformation Manual, the PCG, March 2006.

Table 3

Ten Overarching Themes of Initiatives

No	Initiatives	Description	Output	
1	Enhancing Board Effectiveness	To enhance Board effectiveness through revamping Board practices and processes	Green Book	Launched Apr'06
2	Strengthening Directors Capabilities	To develop a strategy to match Directors to the right Boards and to establish a Directors Academy	Directors Academy	Launched Dec'06
3	Enhancing GLIC Monitoring & Management Functions	To reinforce the ability of GLICs to monitor and manage individual GLCs	Blueprint for GLICs	Launched Dec'06
4	Improving Regulatory Environment	To enhance regulatory capabilities at GLCs and create a Regulatory Knowledge Network	Programme for Managing Regulatory Environment	Launched Dec'06
5	Achieving Value Through Social Responsibility	To guide GLCs to become responsible corporate citizens while creating value for their shareholders and stakeholders	Silver Book	Launched Sep'06
6	Reviewing and Revamping Procurement Practices	To enhance the effectiveness and efficiency of the procurement processes in GLCs	Red Book	Launched Apr'06
7	Optimising Capital Management Practices	To establish guidelines for GLCs to optimise their capital structure	Purple Book	Launched Dec'06
8	Strengthening Talent Management Practices	To improve GLCs capabilities in attracting, developing and retaining talent	Orange Book	Launched Dec'06
9	Intensifying Performance Management Practices	To encourage adoption of performance management best practices at GLCs	Blue Book version 2	Launched Jul'05
			Announcement of Headline KPIs	Launched Mar'06
			Programme for Implementing Value-Based Performance Management	Launched Dec'06
10	Enhancing Operational Efficiency and Effectiveness	To enhance operational efficiency and effectiveness through the adoption of a Framework for Continuous Improvement	Framework for Continuous Improvement	Launched Sep'06

Source: Progress Review of the GLC Transformation Programme, December 2006.

Progress of Transformation

Currently the progress of GLC transformation is in line with the initial targets. By the end of 2006, various best-practices guidelines and implementation manuals aimed at transforming GLCs were issued by the PCG. These guidelines and manuals were developed with the purpose of undertaking and implementing ten initiatives as detailed in *Table 3*. These initiatives are enhancing board effectiveness, strengthening directors' capabilities, enhancing GLIC monitoring and management functions, improving regulatory environment, achieving value through social responsibility, reviewing and revamping procurement practices, optimising capital management, strengthening talent management practices, improving performance management practices as well as enhancing operational efficiency and effectiveness.

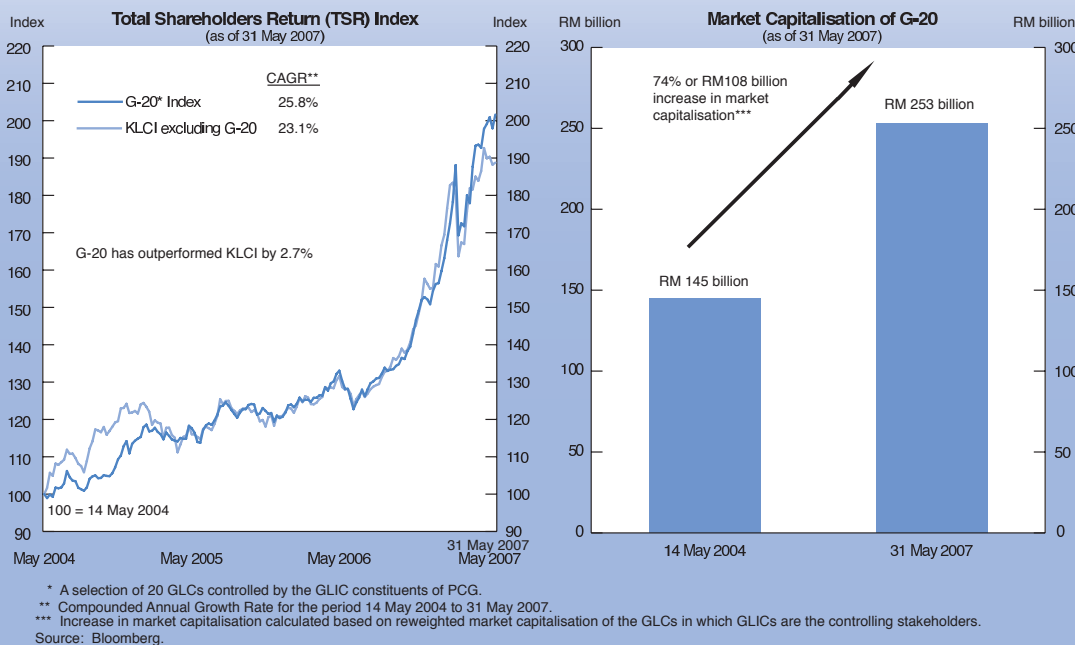
The implementation of these guidelines and manuals has resulted in substantial changes to business policy and practices of many GLCs. These changes are effected primarily through the establishment of internal transformation teams, instituting key performance indicators (KPI), improving performance management, increasing productivity through process and organizational improvements, and divesting non-core or unprofitable business and assets.

Benefits of GLCs Transformation

The GLC transformation has contributed towards improved financial performance of the G-20 companies, particularly in terms of shareholder value, thereby gaining further market acceptance.⁴ As at 31 May 2007 the Total Shareholder Return (TSR), an index constructed to track the market returns of the G-20 companies

Chart 1

Financial Performance of G-20 from May 2004 to May 2007



⁴ The G-20 constitutes the biggest 20 GLCs held by the GLICs and accounts for about 71% of the market capitalization of the total 47 listed GLCs.

as a group, outperformed the benchmark KLCI (excluding those G-20 companies) by 2.7%. Also, the G-20 has created an additional market value of RM108 billion (an increase of 74%) since the beginning of the GLC transformation, as shown in *Chart 1*. In 2006, the G-20 financial performance improved significantly in comparison to 2005, registering a 52.0% increase in earnings to RM10,524 million (2005:-32.0%; RM6,761 million). In addition, nine of the G-20 managed to achieve all their targeted KPIs, while ten other companies met almost all of their KPIs. Although detailed KPIs of GLCs vary from company to company, emphasis generally is on improving turnover, profit and return on equity.

The transformation of GLCs is undertaken with the objective of delivering benefits to all stakeholders. While this programme has brought about positive impact, there are also some downside effects. To strike a right balance between benefits and challenges, the PCG together with GLCs are actively engaging stakeholders to reach a common understanding on the objectives and the long term benefits of GLCs transformation.

Conclusion

The transformation programme, initiated in May 2004 by the Government, is to enhance the performance of GLCs. Three years since the launching of the initiative, significant benefits have been gained by the companies involved as well as their stakeholders. Many GLCs have experienced changes, particularly their business policies and practices, thereby resulting in performance improvements.

The public sector will continue to play a significant role in supporting the economy through increased provision of public expenditure as well as in formulating policies to further stimulate private sector activities. Economic management strategies in 2008 will focus on three main areas namely enhancing the nation's competitiveness, strengthening human resource development and ensuring the well-being of the people. To achieve these strategic thrusts, various programmes and projects are formulated in the 2008 Budget.

The Budget will allocate a total of RM168,799 million, an increase of 2.5% over 2007. Of this, RM128,799 million is for operating expenditure and the balance RM40,000 million for development expenditure.

Operating expenditure is projected to increase 4.0% over 2007, mainly for charged and locked-in items. Emolument will receive the biggest allocation amounting to RM36,176 million to further improve public sector delivery system as well as to enhance the efficiency and productivity of

Government employees. Other major allocations provided include grants, transfers and subsidy payments amounting to RM63,960 million as well as supply and services (RM25,483 million). Subsidy payments are mainly for petroleum products and diesel.

Under the programme to develop sectors with high growth potential, RM6,520 million is allocated for agriculture. Some of the programmes identified for implementation include livestock farming, aquaculture as well as financing schemes for farmers and those involved in commercial agriculture. In addition, RM40 million is allocated for the development and promotion of *halal* hub and *halal* park particularly in selected states in the country.

Tourism is recognised as one of the major sources of foreign exchange earnings. To further develop the sector, the Ministry of Tourism is given an allocation amounting to RM858 million. Programmes receiving attention under tourism include promotion of tourism both domestically and abroad, development of eco-tourism products,

provision of tourism infrastructure, and promotion of *MalaysiaKitchen Programme*, an effort to promote Malaysian cuisine overseas, thereby generating interest on Malaysia as a tourist destination.

To increase the capacity and efficiency of the economy, infrastructure development will continue to be given emphasis by the Government. In this regard, RM6,540 million is allocated for construction and maintenance of roads, bridges and rail. Similarly, airports and ports are also given allocation amounting to RM1,275 million while water supply and sewerage are given RM2,820 million. To inculcate a maintenance culture, RM9,180 million is allocated to all ministries and agencies for maintenance of government assets to ensure minimal disruption, more economical life span and to provide better service to the public.

Human resource development is one of the important determinants of national competitiveness particularly in supporting the demands of higher value-added industries as well as to spur an economy that is increasingly service oriented and knowledge based. The Budget will continue to place emphasis on formal education at all levels. In this regard, RM767 million is allocated for pre-school education especially for the establishment, refurbishment and operation of kindergartens in rural areas. Primary and secondary education receive substantial allocation for development expenditure amounting to RM3,510 million for 668 and 262 primary and secondary school projects respectively. In addition, an allocation of RM303 million is also provided to upgrade computer literacy and IT education benefiting 1,000 schools. For tertiary education, RM6,800 million is provided for the operation of 21 IPTAs catering for 412,700 students. To further expand the capacity of IPTAs, an allocation amounting to RM2,500 million is provided for development projects.

In addition to formal education, training in various disciplines is also given emphasis. This is aimed at increasing the pool of skilled manpower to meet

the varied needs of industries and employers. Community colleges and polytechnics are given RM1,212 million to increase the number of trainees with technical and trade skills. As in the past, MARA is given substantial allocation amounting RM340 million for its skills training institutes, which include the construction of four new ones.

In addition to skills and knowledge, inculcating positive attitude, patriotism, national unity and harmony are also given priority. In this regard, RM677 million is provided for national service training. The programme is expected to benefit 110,000 trainees in 84 camps throughout the country in 2008.

Maintaining public health standards and ensuring the well being of citizens is another priority of the Government. In this connection, the Budget provides an allocation of RM1,441 million to construct and upgrade hospitals, health clinics as well as quarters for medical personnel. In addition, RM401 million is allocated for operation of newly completed facilities, maintenance of information and communication technology systems, implementation of Harm Reduction Programme and financial assistance for lower income groups seeking medical treatment, particularly for chronic diseases.

In line with the Government's commitment to eliminate hardcore poverty by 2010, the fruits of development will be filtered down to all strata of society. Hence, the Budget provides a further allocation amounting to RM794 million for poverty alleviation programmes including *Kumpulan Wang Amanah Pelajar Miskin* as well as food and nutrition for school and kindergarten students. In addition, special programmes to assist the poor and hardcore poor families are allocated RM264 million under *Skim Pembangunan Kesejahteraan Rakyat* and *Amanah Ikhtiar Malaysia*. Those who are disabled, handicapped, elderly and single mothers are provided special assistance in the form of welfare payments, priority for low cost housing and greater preference for shelter in welfare homes.

As Malaysia moves towards developed country status, youth and sports development as well as appreciation of arts and culture will increasingly gain prominence with the Government providing an allocation of RM1,717 million. This is to implement projects aimed at promoting sports and healthy lifestyle, the love for arts and culture as well as rehabilitating and conserving buildings of historical and cultural heritage.

Realising the importance of public safety and national security, the Government will continue to provide sufficient allocations amounting to RM23,310 million for both operating and development expenditure to strengthen the police and armed forces, both in terms of equipment upgrading as well as human resource development. In particular, police presence in crime-prone areas will be augmented by additional patrol cars as provided in the Budget. Besides, *Angkatan Relawan Rakyat Malaysia* (RELA) is also given RM48 million to help complement the police to

maintain law and order including handling illegal immigrants. To encourage cooperation and public participation in combating crimes, RM1 million is also given to *Rukun Tetangga* to carry out the voluntary patrolling scheme.

Continued efforts will be taken to improve tax administration and enforcement to boost revenue collection as well as minimise tax evasion and leakages. Revenue is envisaged to increase by 3.7% to RM147,093 million as compared to 2007 on account of robust economic activities with revenue from taxes increasing by 6.0% to RM101,995 million. The collection of direct and indirect taxes is expected to increase by 6.8% to RM74,915 million and 3.8% to RM27,080 million, respectively. Similarly, non-tax revenue consisting investment income, licences and permits, service fees as well as proceeds from securitisation are expected to decrease slightly by 1.1% to RM45,098 million.