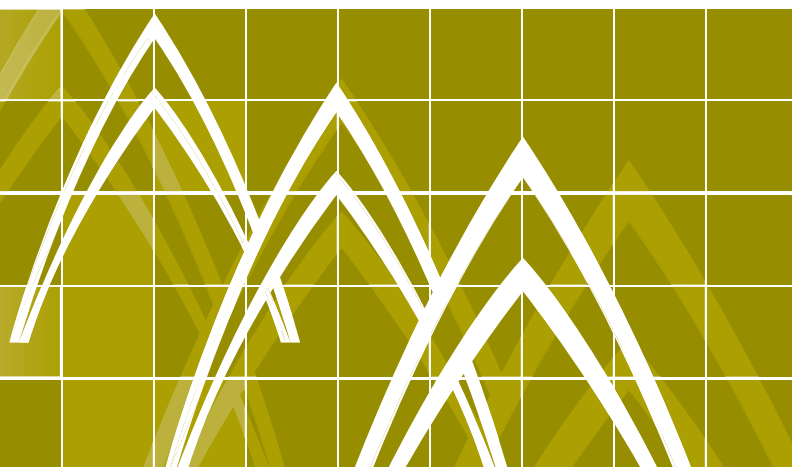


4 Public Sector Finance





Public Sector Finance

Overview

Fiscal policy as stabiliser...

Fiscal policy assumed greater significance in 2009 to mitigate the impact of global slowdown on the domestic economy. As the external sector collapsed and the business community remained cautious and risk averse, Government intervention became crucial to sustain aggregate demand by supporting domestic economic activity. Two stimulus packages were announced in November 2008 and March 2009. They were designed to protect jobs, provide skills training and re-training, facilitate private sector activity as well as ease the burden of vulnerable groups. As a result of the expansionary fiscal stance adopted by the Government, the fiscal deficit is expected to widen further from 4.8% in 2008 to 7.4% in 2009. The public sector is expected to expand 12.0%, contributing 2.9 percentage

points to Gross Domestic Product (GDP) growth (2008: 6.3%; 1.5 percentage points). As the key driver of economic growth in 2009, the public sector's share to GDP will, therefore, remain high at 27.9% (2008: 24.2%).

Federal Government

Higher deficit...

Developments in the external environment continue to impact the fiscal position of the Federal Government despite steady revenue collection. Weak private investment, sluggish export performance and higher expenditure incurred due to the implementation of the stimulus packages are expected to weaken the financial position of the Federal Government. Total expenditure for 2009 is estimated at RM213.7 billion while revenue collection, RM162.1 billion.

TABLE 4.1

Federal Government Financial Position 2008 – 2010

	RM million			Change (%)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
Revenue	159,793	162,100	148,446	14.2	1.4	-8.4
Operating expenditure	153,499	160,170	138,279	24.7	4.3	-13.7
Current balance	6,294	1,930	10,167			
Gross development expenditure	42,847	53,563	51,220	5.6	25.0	-4.4
Less: Loan recovery	959	518	571	-69.1	-46.0	10.2
Net development expenditure	41,889	53,045	50,649	11.8	26.6	-4.5
Overall balance	-35,594	-51,115	-40,482			
% of GDP	-4.8	-7.4	-5.6			

¹ Revised estimate.

² Budget estimate, excluding 2010 tax measures.

Revenue

Revenue remains steady...

The Federal Government revenue in 2009 is projected to be firm despite slower growth prospects for the domestic economy. Total revenue collection is expected to register a marginal growth of 1.4% to RM162.1 billion or 23.4% of GDP (2008: 14.2%; RM159.8 billion; 21.6%). However, tax revenue is expected to decline 5.7% to RM106.5 billion, contributing 65.7% to total revenue (2008: 18.6%; RM112.9 billion; 70.7%). This is on account of a contraction in direct and indirect taxes, reflecting slower private investment and consumption activity as well as lower profitability of businesses. In contrast, returns on investment as well as proceeds from securitisation are expected to boost non-tax revenue by 18.5% to RM55.6 billion (2008: 4.9%; RM46.9 billion).

Direct tax is expected to decline 4.1% to RM78.7 billion (2008: 18.4%; RM82.1 billion). With the exception of corporate income tax, receipts from major components of income tax are anticipated to improve. Revenue from petroleum income tax (PITA), which is assessed on a preceding year basis, will amount to RM27 billion as crude oil prices averaged USD103.69 per barrel (pb) in 2008. Corporate income tax is expected to decline 16.0% while individual tax will register growth of 2.8% to RM15.4 billion (2008: 17.4%; 28.3%; RM15 billion). The lower income tax collection is attributable to weak economic activity, various tax incentives and exemptions given over the years to stimulate business activity as well as the reduction in corporate tax from 26% in 2008 to 25% in 2009. Further, in the 2009 Budget, individual income tax rate for specific chargeable income groups was reduced to ensure tax rates remain competitive as well as boost disposable income of *rakyat*. Receipts from other components

TABLE 4.2

Federal Government Revenue 2008 – 2010

	RM million			Change (%)			Share (%)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
Tax revenue	112,897	106,509	103,548	18.6	-5.7	-2.8	70.7	65.7	69.8
Direct tax of which:	82,138	78,735	75,916	18.4	-4.1	-3.6	51.4	48.6	51.1
Companies	37,741	31,684	35,728	17.4	-16.0	12.8	23.6	19.5	24.1
PITA ³	24,191	27,000	19,366	18.3	11.6	-28.3	15.1	16.7	13.0
Individual	14,966	15,379	15,837	28.3	2.8	3.0	9.4	9.5	10.7
Indirect tax of which:	30,760	27,774	27,632	19.4	-9.7	-0.5	19.2	17.1	18.6
Excise duties	10,683	9,756	10,291	18.8	-8.7	5.5	6.7	6.0	6.9
Sales tax	8,374	8,457	7,778	26.1	1.0	-8.0	5.2	5.2	5.2
Non-tax revenue	46,896	55,592	44,898	4.9	18.5	-19.2	29.3	34.3	30.2
of which:									
Licences/permits	11,101	9,796	9,005	17.7	-11.8	-8.1	6.9	6.0	6.1
Investment income	32,271	42,385	32,322	-0.4	31.3	-23.7	20.2	26.1	21.8
Total revenue	159,793	162,100	148,446	14.2	1.4	-8.4	100.0	100.0	100.0
% of GDP	21.6	23.4	20.5						

¹ Revised estimate.

² Budget estimate, excluding 2010 tax measures.

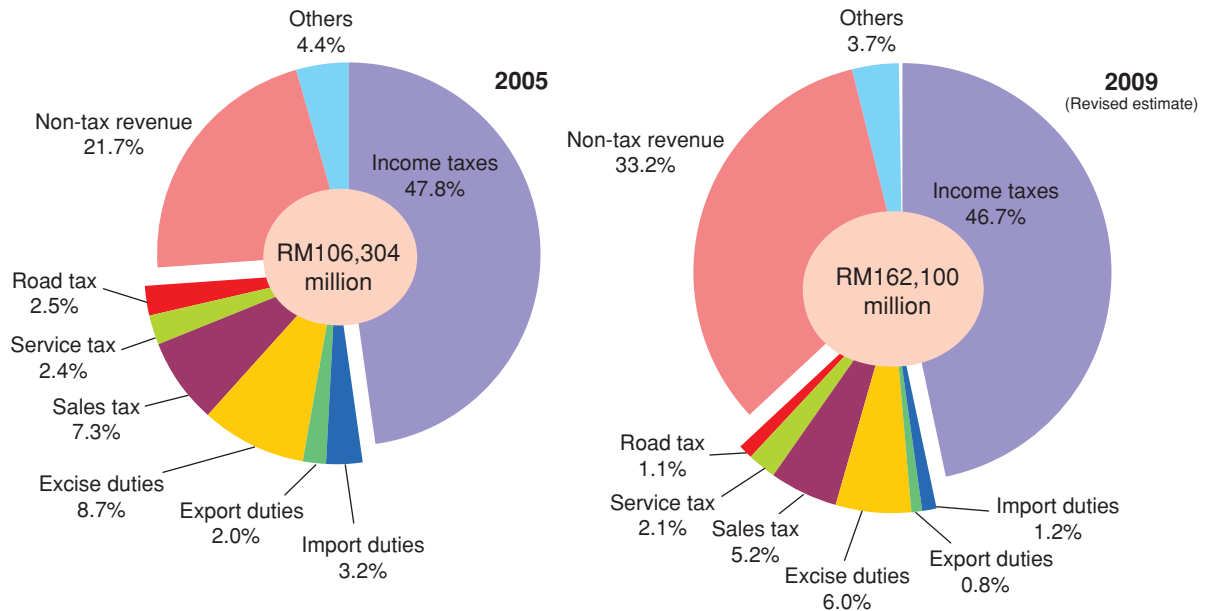
³ Petroleum Income Tax.

Note: Total may not add up due to rounding.



CHART 4.1

Federal Government Revenue



of direct taxes such as cooperative income tax (RM279 million) and withholding tax (RM1.3 billion) are expected to remain firm while stamp duties are anticipated to contract 14.5% to RM3 billion signalling cautious business sentiment.

The oil and gas industry remains the largest contributor to tax revenue, followed by wholesale and retail, manufacturing and financial intermediaries. As at end-August 2009, there were 5.3 million registered taxpayers. Of this, 88.4% were individual taxpayers, 8.3% companies, while the rest included societies and various trust bodies. Number of taxpayers totalled 2.3 million, comprising 93.4% individual taxpayers as well as 6.6% companies and others. The number of taxpayers using e-Filing has increased since it was introduced in 2006. In 2009, a total of 1.6 million taxpayers used the e-Filing system, an increase of 31.2% over 2008. The Inland Revenue Board (IRB) continues to enhance revenue collection through efficiency gains made in tax administration, audit and investigations.

Revenue from **indirect taxes** is projected lower at RM27.8 billion with its share to total revenue declining to 17.1% (2008: RM30.8 billion; 19.2%).

Lower commodity prices and export volume, in particular, crude oil, coupled with weak business confidence and consumer sentiment will continue to impinge on indirect tax receipts. The average price of Tapis blend for the first nine months of the year was significantly lower at USD60.70 pb (2008: USD103.69 pb) leading to contraction in export duties by 54.5% to RM1.3 billion (2008: 19.7%; RM2.8 billion). Excise duties are anticipated to decline 8.7% to RM9.8 billion on account of lower sales of vehicles, cigarettes and alcoholic beverages, the main components of excise duties.

In line with Malaysia's progressive commitments to regional and bilateral trade arrangements, the liberalisation of import duties will result in lower receipts to RM2 billion (2008: RM2.6 billion). Lower business spending by firms will also affect collection of import duties. Receipts from sales and service taxes are expected to remain favourable due to improving private consumption and tourist spending. The windfall profit levy on crude palm oil (CPO), introduced in 2008 is estimated at RM15 million (2008: RM339 million). The levy is imposed when the price of CPO exceeds RM2,000 per tonne. However, under

the second stimulus package, the threshold for the levy was increased to RM2,500 per tonne in Peninsular Malaysia and RM3,000 per tonne in Sabah and Sarawak. CPO prices for the first nine months of the year averaged RM2,252 per tonne (2008: RM2,773 per tonne).

Non-tax revenue is estimated at RM55.6 billion, an increase of 18.5% over 2008, contributing 34.3% to total revenue (2008: RM46.9 billion; 4.9%; 29.3%). The main sources of non-tax revenue are dividend income from *Petroleum Nasional Berhad* (PETRONAS), *Bank Negara Malaysia* (BNM) as well as licenses and permits. Petroleum royalties and road tax, the major components of licenses and permits, are expected to contribute RM6.6 billion. In addition, proceeds from securitisation of Government employees' housing loans and dividend income from government-linked companies (GLCs) are expected to improve non-tax revenue collection.

Expenditure

Higher spending...

Total Federal Government expenditure for the year is estimated at RM213.7 billion, an increase of 8.9% over 2008. Of this, a sum of RM160.2 billion or 74.9% is for operating expenditure while the balance, RM53.6 billion for development expenditure.

Operating expenditure is expected to increase at a slower pace of 4.3% despite the fiscal injection of RM5 billion under the second stimulus package. This is mainly due to the high base effect in 2008 when Government spending surged 24.7% to RM153.5 billion following inflationary pressures on the domestic economy brought on by high global fuel and food prices. The slower growth in operating expenditure in 2009 is also contributed by prudent spending measures

TABLE 4.3

Federal Government Operating Expenditure by Object 2008 – 2010

	RM million			Change (%)			Share (%)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
Emolument	41,011	37,974	42,163	25.9	-7.4	11.0	26.7	23.7	30.5
Debt service charges	12,797	13,473	15,886	-0.9	5.3	17.9	8.3	8.4	11.5
Grants to state governments	4,365	4,903	4,855	11.8	12.3	-1.0	2.8	3.1	3.5
Pensions and gratuities	10,022	8,178	10,810	21.5	-18.4	32.2	6.5	5.1	7.8
Supplies and services	25,197	26,809	20,846	6.7	6.4	-22.2	16.4	16.7	15.1
Subsidies	35,166	24,526	20,920	235.5	-30.3	-14.7	22.9	15.3	15.1
Grants to statutory bodies ³	12,584	12,351	11,183	17.5	-1.9	-9.5	8.2	7.7	8.1
Refunds and write-offs	716	890	679	-32.6	24.3	-23.7	0.5	0.6	0.5
Others	11,641	31,067	10,938	-40.5	166.9	-64.8	7.6	19.4	7.9
Total	153,499	160,170	138,279	24.7	4.3	-13.7	100.0	100.0	100.0
% of GDP	20.8	23.1	19.1						

¹ Revised estimate.

² Budget estimate, excluding 2010 tax measures.

³ Includes emolument.

Note: Total may not add up due to rounding.



instituted, coupled with the restructuring of fuel subsidies. In addition, savings from fuel subsidies were used to finance the first stimulus package of RM7 billion.

The largest component of operating expenditure is *emolument* which accounts for 23.7% or RM38 billion. The allocation includes the special cash assistance of RM500 given to 860,000 support staff in the civil service to ease their financial burden. The one-off special payment will cost the Government RM430 million. Another main component in operating expenditure is *subsidies* which comprises fuel subsidies, various other subsidies, incentives and assistance given to food security programmes, scholarships and educational assistance schemes, as well as social welfare programmes and provision for *Orang Asli*. The allocation for subsidies is projected to decline 30.3% to RM24.5 billion.

In 2009, expenditure on fuel subsidies is expected to decline markedly by 48.6% to RM9 billion (2008: 134.9%; RM17.6 billion) on account of lower crude oil prices. The price of West Texas Intermediate (WTI) averaged USD57.21 pb for the first nine months of the year (2008: USD99.92 pb). Additional savings of RM260 million will also be realised for the year with the rationalising of fuel subsidies as of 1 September 2009. RON95, the newly introduced fuel grade is retailed at RM1.80 per litre while RON97, the premium grade petrol, at RM2.05 per litre.

Another area of savings is from the one-off cash rebate that was disbursed to owners of private vehicles effective April 2008. A sum of RM7 billion was allocated for the purpose, with RM5 billion for 2008 and the balance for 2009. Total expenditure under the one-year scheme was RM4.4 billion benefiting 9.9 million registered vehicle owners. As actual disbursements in 2009 amounted to RM899 million, a saving of RM1.1 billion was obtained.

A sum of RM915 million will be spent in the form of subsidies, incentives and financial assistance to benefit farmers, fishermen and livestock entrepreneurs. This is in line with the National Food Security Policy announced in April 2008

which addresses the need to improve productivity in the food-sub-sector as well as maintain price stability of essential food items. Under the second stimulus package, several one-off measures were introduced to alleviate the burden of the *rakyat* which include, subsidies amounting to RM674 million for sugar, bread and flour as well as an additional RM480 million to maintain toll rates in 2009.

Financial assistance amounting to RM348 million is extended to improve the quality of life of the lower income group, senior citizens, single mothers, the disabled and other vulnerable groups. Under the 2009 Budget, the eligibility criteria for welfare assistance for those registered with the Welfare Department has been increased from a monthly household income of RM400 to RM720 for Peninsular Malaysia, RM830 for Sarawak and RM960 for Sabah. With this review, the total number of eligible recipients is expected to increase to 135,200 households and 84,400 senior citizens, respectively.

Scholarships for students at all levels of education and educational assistance programmes are estimated at RM6.8 billion. This includes financial assistance amounting to RM4.6 billion extended to students, trainees at skills training centres and for professional career development while RM247 million and RM1.5 billion respectively is for tuition vouchers and nutrition programmes in schools. Contribution to *Kumpulan Wang Amanah Pelajar Miskin* (KWAPM) will amount to RM400 million. Meanwhile, a sum of RM36 million is allocated to improve the welfare of *Orang Asli* through assistance in the form of agriculture inputs, educational and nutrition programmes.

Supplies and services, constituting 16.7% of total operating expenditure, is expected to register a slower growth of 6.4% to RM26.8 billion (2008: 16.4%; 6.7%; RM25.2 billion) in line with administrative measures to curb non-critical expenditure. Payments for professional and technical services as well as maintenance, repairs and rentals account for the bulk of the expenditure. Other items include supplies, travel as well as communication and utilities.

Fiscal Stimulus Packages - An Update¹

Introduction

The global financial crisis took a turn for the worse towards the second half of 2008. As a small, open and trade-dependent economy, Malaysia was impacted by the global economic slowdown through trade and financial flows. As the length, depth and complexity of the financial crisis remained uncertain, a stimulus package of RM7 billion was announced on 4 November 2008. It was aimed at mitigating the effects of the global financial turmoil on the real economy, enhance resilience as well as sustain growth momentum.

First Stimulus Package

The stimulus package was financed through savings obtained from fuel subsidies following the slump in crude oil prices. Priority was given to projects with high multiplier effect, low import content and which could be implemented expeditiously. The package included:

- i. Upgrading, repair and maintenance of public amenities, including schools, hospitals and roads;
- ii. Upgrading, repair and maintenance of police stations and camps as well as quarters for uniformed personnel;
- iii. Building low and medium cost houses;
- iv. Investment fund to attract private investments;
- v. Accelerating implementation of high-speed broadband;
- vi. Upgrading, repair and maintenance of public transport;
- vii. Financing skills training programmes in private training institutions;
- viii. Undertaking small basic infrastructure and maintenance projects; and
- ix. *Rakan Muda* programmes

Second Stimulus Package

As the global recession deepened and Malaysia's external sector slumped, a second, more comprehensive stimulus package amounting to RM60 billion was announced on 10 March 2009. The package, to be realised over two years, was aimed at stimulating the economy in the short-term while building the long-term productive capacity of the economy.

The thrusts of the second stimulus package were to:

- i. Reduce unemployment and increase employment opportunities;
- ii. Ease the burden of the *rakyat*, in particular the vulnerable groups;
- iii. Assist the private sector in facing the crisis; and
- iv. Build capacity for the future.

The second stimulus package comprises:

- i. A direct fiscal injection of RM15 billion, with RM10 billion in 2009 and RM5 billion in 2010;
- ii. Guarantee Funds of RM25 billion;
- iii. RM10 billion in equity investments;
- iv. RM7 billion in private finance initiative (PFI) and off-budget projects; and
- v. RM3 billion in tax incentives

In order to expedite project implementation, several rules and regulations pertaining to procurement were relaxed and powers delegated to implementing ministries and agencies. They include the following:

¹ This article was prepared with inputs from Project Management Unit (PMU)



- i. The upper limit for the procurement of goods and services through quotation was increased from RM200,000 to RM500,000;
- ii. Contractors are eligible for advance payment of 10% of the contract value or a maximum of RM20,000 to facilitate commencement of work;
- iii. Delegation of powers to procurement boards and quotation committees in the ministries and agencies to appoint consultants and approve consultancy fees. The delegation of power is for development projects, studies pertaining to physical and non-physical projects as well as land surveys; and
- iv. Tender advertisement period reduced from 21 to 14 days.

Project Management Unit

A Project Management Unit (PMU) was set up to ensure speedy and efficient implementation of the measures in the stimulus packages. A high-powered inter-agency Technical Committee (TC), chaired by the Secretary-General of the Treasury was set up and meets weekly to monitor the implementation of the programmes and projects. The TC reviews reports from ministries and implementing agencies and helps resolve impediments to programme and project implementation. The PMU reports fortnightly on progress and issues related to project implementation to the Economic Council (EC) which is chaired by the Prime Minister. With these monitoring mechanisms in place, project implementation under the stimulus packages is on-track and expected to be completed as scheduled.

Progress to date

Under the first stimulus package, a sum of RM6.9 billion has been disbursed to various ministries and agencies. A total of 53,571 projects worth RM6.1 billion have been awarded. As at end-September, RM4.3 billion was spent. By end-2009, all projects are expected to be fully implemented, benefiting more than 50,000 contractors ranging from class F to class A.

Meanwhile, under the second stimulus package, disbursements to ministries and related agencies as at end-September amounted to RM14.5 billion and contracts worth RM7.6 billion have been awarded for 31,158 projects. Expenditure to date is RM3.9 billion with 10,710 projects completed. By end-2010, all programmes and projects under the package are expected to be completed.

Three guarantee schemes amounting to RM25 billion were introduced to restore investor confidence and ensure sustained credit flows to support private sector activity. They are the Working Capital Guarantee Scheme (WCGS), Industry Restructuring Financing Guarantee Scheme (IRFGS) and Financial Guarantee Institution (FGI). As at end-September 2009, a total of RM5.7 billion (WCGS) and RM429 million (IRFGS) worth of loans were approved to 4,358 and 133 companies, respectively. As demand for the working capital scheme was greater, the guarantee limit for WCGS was increased from RM5 billion to RM7 billion while the guarantee limit for IRFGS, reduced by RM2 billion to RM3 billion. The sectors which accessed the schemes included the wholesale and retail trade, manufacturing as well as property and construction.

Danajamin Nasional Berhad (Danajamin), the financial guarantee insurer, which started operations in May 2009, provides credit enhancement to facilitate the private sector raise funds from the bond market. *Danajamin*, with a paid-up capital of RM1 billion, will be able to guarantee bond issuance of up to RM15 billion. As at end-September 2009, seven applications were received for credit enhancement of bonds worth RM1.7 billion. They were mainly from the oil and gas, property and construction as well as the financial services sectors.

Khazanah Nasional Berhad will undertake domestic investments worth RM10 billion in strategic sectors, including telecommunications, technology, tourism, agriculture, life sciences and projects related to Iskandar Malaysia. Some of the projects include improving broadband infrastructure in the country, hotels, theme parks as well as agriculture projects in Setiu and Cameron Highlands. These investments are expected to create 70,000 jobs by 2011.

Under the RM7 billion in PFI and off-budget financing, several projects have been identified for implementation, including the Tanjung Agas Industrial Park, biotechnology cluster in Iskandar Malaysia as well as upgrading traffic dispersal system around KL Sentral. In the area of public-private partnership in education, GLCs are expected to establish 10 trust schools. The construction of a new Low-Cost Carrier Terminal (LCCT) at Kuala Lumpur International Airport (KLIA) and the upgrading of the Penang International Airport are some of the projects identified for implementation on an off-budget basis. The permanent LCCT building will be built at a cost of RM2 billion comprising a main terminal building, 3.7 kilometer runway, aircraft parking apron and related infrastructure. The main terminal is expected to commence operations by September 2011. The upgrading of Penang International Airport at a cost of RM250 million will add to passenger capacity and further boost the island's potential as a logistics and tourism hub. The project is scheduled for completion by end-2011. Preliminary works related to both projects are progressing as scheduled.

Tax incentives worth RM3 billion were provided to reduce cost of doing business, promote investments in plant and machinery, renovate and refurbish business premises, safeguard jobs as well as increase disposable income of *rakyat*.

Implementation Status of Stimulus Packages

	Work in progress		Expenditure (RM million)
	No. of Projects	Value (RM million)	
First stimulus package	53,571	6,126	4,291
Second stimulus package	31,158	7,598	3,868
Total	84,729	13,724	8,159

Impact of the Stimulus Packages

Signs of stabilisation have emerged in advanced economies although employment prospects and stagnant wages remain a concern. Business and consumer sentiment have improved and this will have an impact on Malaysia being a highly integrated economy. Signs of recovery are also evident in the Malaysian economy as reflected in the slower decline in Industrial Production Index (IPI), exports and imports as well as improvements in commodity prices, equity market, and business and consumer sentiment.

The positive impact of fiscal measures complemented by monetary easing was seen especially in the construction sector. It was the only sector that registered positive growth of 1.1% in the first quarter of 2009. This was largely attributed to the implementation of maintenance works on schools, hospitals and government quarters as well as small rural infrastructure projects. Boosted by higher public spending and improving private consumption, the economy contracted at a slower pace of 3.9% in the second quarter. The services and agriculture sectors rebounded to register growth of 1.6% and 0.3%, respectively while the construction sector strengthened further to 2.8%.

Conclusion

The full impact of the two stimulus packages is expected to be more significant in the third and fourth quarters of the year with spillover effect in 2010. With improving domestic demand reinforced by a pick-up in global economic activity, the economy is expected to register a slower contraction of 3.0% in 2009 and mild recovery in 2010.



TABLE 4.4

Federal Government Development Expenditure by Sector 2008 – 2010

	RM million			Change (%)			Share (%)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
Economic services	21,353	27,863	25,382	6.1	30.5	-8.9	49.8	52.0	49.6
of which:									
Agriculture and rural development	4,184	3,700	3,130	8.9	-11.6	-15.4	9.8	6.9	6.1
Trade and industry	4,581	5,746	4,382	-6.6	25.4	-23.7	10.7	10.7	8.6
Transport	9,212	8,633	6,661	8.4	-6.3	-22.8	21.5	16.1	13.0
Social services	13,717	18,963	20,308	6.4	38.2	7.1	32.0	35.4	39.6
of which:									
Education and training	7,892	11,716	11,065	25.8	48.5	-5.6	18.4	21.9	21.6
Health	1,652	2,605	3,594	10.4	57.7	38.0	3.9	4.9	7.0
Housing	1,780	1,452	1,461	-39.6	-18.4	0.6	4.2	2.7	2.9
Security	5,779	4,547	3,728	1.3	-21.3	-18.0	13.5	8.5	7.3
General administration	1,998	2,191	1,802	7.8	9.7	-17.8	4.7	4.1	3.5
Total	42,847	53,563	51,220	5.6	25.0	-4.4	100.0	100.0	100.0
% of GDP	5.8	7.7	7.1						

¹ Revised estimate.

² Budget estimate.

Note: Total may not add up due to rounding.

Grants to statutory bodies are anticipated to decrease 1.9% to RM12.4 billion (2008: 17.5%; RM12.6 billion) primarily for the payment of emolument as well as supplies and services. The 21 public institutions of higher learning (IPTAs) and three teaching hospitals account for the largest share at 55.2% of grants disbursed or RM6.8 billion. Other major recipients include the IRB and *Majlis Amanah Rakyat* (MARA).

Debt service charges are projected to increase 5.3% to RM13.5 billion (2008: -0.9%, RM12.8 billion) consistent with higher borrowings to finance the fiscal deficit. As a percentage of total operating expenditure, debt service charges remain low and manageable at 8.4% (2008: 8.3%). Substantial allocations are also provided for *pensions and gratuities* (RM8.2 billion), *grants and transfers to state governments* (RM4.9 billion), as well as for *asset acquisition* (RM2.4 billion).

Development expenditure is expected to surge 25.0% to RM53.6 billion in 2009 (2008: 5.6%; RM42.8 billion). The economic services accounts

for the largest allocation at 52.0% followed by social services (35.4%), security (8.5%) and general administration (4.1%).

The *economic services* sector is allocated RM27.9 billion of which RM8.6 billion is for the transport sub-sector. This is to finance the construction, maintenance and upgrading of roads and bridges, railways, airports, ports and jetties as well as rural infrastructure. Major ongoing road works in the sub-sector include the upgrading of Skudai – Senai Highway and Skudai – Jalan Abu Bakar Highway in the Iskandar Development Region (IDR) area, the Alor Setar – Tasik Pedu – Gurun Ring Road and the East Coast Highway (LPT) Phase II from Jabur to Kuala Terengganu. Railroad projects under construction include the electrified double-tracking projects between Ipoh – Padang Besar, Seremban – Gemas and Sentul – Batu Caves as well as purchase of rolling stock by *Keretapi Tanah Melayu Berhad* (KTMB). Other development projects include the upgrading of the Kota Kinabalu, Labuan and Kuching airports, replacement of cable stay for

Penang Bridge as well as the KL Sentral traffic dispersal system.

The trade and industry sub-sector is allocated RM5.7 billion, an increase of 25.4% over 2008. Major development programmes include improving infrastructure facilities in industrial areas, funding of strategic investments, skills and entrepreneur development, vendor development programme for the automotive sector as well as further development of small and medium enterprises (SMEs). Allocation is also provided for the five regional corridors for comprehensive infrastructure development and special projects. The corridor projects will provide investment opportunities for the private sector, create jobs as well as nurture entrepreneurial skills among the local community. To promote tourism, focus will be on upgrading tourism-related facilities and amenities, undertaking intensive promotional activities at home and abroad, as well as diversifying tourism products. Existing projects and programmes such as eco-tourism, Malaysia MySecond Home (MM2H) and homestay programmes will be further strengthened. The health tourism industry will be given a boost when the proposed Malaysia Healthcare Travel Council (MHTC) is established, initially, as a department under the Ministry of Health. The MHTC will develop and promote Malaysia as a regional healthcare hub.

The agriculture and rural development sub-sector accounts for 6.9% or RM3.7 billion of total development expenditure (2008: 9.8%; RM4.2 billion). Emphasis is on modern and commercial farming methods, higher value-added activities, innovative marketing approaches as well as farm accreditation. Towards this, projects implemented include the Aquaculture Industry Zones initiative, Permanent Food Production Parks and Contract Farming in various states. Agriculture extension services and skills training will continue to be enhanced to serve the sub-sector more effectively. Allocation is also provided for poverty alleviation programmes in Sabah and Sarawak, upgrading drainage and irrigation, land and regional development as well as projects related to aquaculture and livestock breeding, cultivation of fruits, vegetables and floriculture.

The allocation for public utilities, energy and communications amounts to RM3.9 billion or 7.2% of total development expenditure. To narrow the rural-urban divide and improve the quality of life in rural areas, priority is given to improving public amenities such as water and electricity supply, telecommunication facilities as well as sewerage services. Access to similar facilities for the urban poor will also be enhanced.

A sum of RM19 billion is allocated to the *social services* sector, with education and training sub-sector receiving the largest share amounting to RM11.7 billion or 21.9% of total development expenditure (2008: RM7.9 billion; 18.4%). Allocation is provided for the improvement of infrastructure and facilities as well as maintenance and upgrading of equipment in universities, polytechnics, skills training centres, teacher training and community colleges. Major ongoing projects include the upgrading and expansion of *Universiti Teknologi MARA* (UiTM), *Universiti Islam Antarabangsa Malaysia* (UIAM), *Hospital Universiti Sains Malaysia* (HUSM) and *Universiti Malaysia Sarawak* (UNIMAS). Polytechnics under construction, upgraded or being expanded include those in Mersing, Nilai, Jeli, Sandakan and Muadzam Shah. Substantial allocation of RM2.4 billion will also be provided for pre-school, primary and secondary education.

Expenditure for the health sub-sector is estimated at RM2.6 billion or 4.9% of total development allocation. Provision will be made for building, upgrading and maintenance of hospitals and health clinics as well as for purchase of medical and health equipment. Major ongoing projects include the construction of *Hospital Kluang*, *Hospital Psikiatri Tampoi*, *Hospital Rehabilitasi Cheras* and *Hospital Shah Alam* as well as upgrading *Hospital Pulau Pinang* Phase I and *Hospital Batu Pahat*. The upgrading of Sabah Medical Centre will be expedited to ensure continued medical and health services. Substantial allocation is also provided to strengthen rural healthcare, including the construction of health and dental clinics as well as to upgrade rural health facilities throughout the country.



An allocation of RM1.5 billion for the housing sub-sector will be utilised to build affordable homes for the low-income group as well as accommodate housing needs of civil servants, including uniformed personnel. *Jabatan Perumahan Negara* (JPN) will undertake the construction of 7,240 units of *Program Perumahan Rakyat* (PPR) *Bersepadu*, 1,600 units of PPR *Disewa*, and 300 units of PPR *Dimiliki* which are expected to be completed in 2009. Under the first stimulus package, *Syarikat Perumahan Negara Berhad* (SPNB) is building 2,733 units of *Rumah Mesra Rakyat* (RMR) and rehabilitating 4,831 units in 15 abandoned housing projects.

Under the social services sector, allocation is also provided to enhance facilities and services at the local level (RM1.4 billion) as well as for community and rural development, including the *Orang Asli* (RM1.2 billion). Expenditure is mainly for solid waste management, fire fighting services, welfare services for the elderly and marginalised, upgrading and building parks and recreational facilities as well as for rehabilitating rivers. For the rural hardcore poor, various income-generating programmes such as the *agropolitan* schemes in Pulau Banggi, Sabah and Tanjung Gahai in Pahang will continue to be implemented to provide sustainable income. The recently launched Pekan *agropolitan* scheme in the East Coast Economic Region (ECER) will involve 1,450 hardcore poor families, including the *Orang Asli*, in projects such as oil palm planting and sheep rearing.

National security and public safety remain a key concern. The *security* sector will be provided RM4.5 billion to enhance the capacity and capability of uniformed personnel through upgrading equipment, improving surveillance and skills enhancement. Allocation for *general administration* is expected to increase 9.7% to RM2.2 billion (2008: 7.8%; RM2 billion) on account of concerted efforts to improve productivity and the public sector delivery system. The development of new and wider usage of information communication technology (ICT) applications in the public sector will continuously be enhanced. Provision is also made for the renovation, refurbishment and maintenance of Government facilities such as quarters, judicial courts and training institutes.

Financing

Domestic sources of funding...

Total gross borrowings of the Federal Government in 2009 are expected to reach RM93.3 billion. Of the total, RM42.8 billion is for repayment of existing loans while the balance of RM50.5 billion is to finance the deficit. With revenue exceeding operating expenditure, borrowings are only to meet development expenditure. Given the ample liquidity in the financial system, funding requirements will be raised from domestic sources and are not expected to crowd out the private sector.

In 2009, RM64 billion will be raised through the issuance of Malaysian Government Securities (MGS) while the balance RM29 billion, through

TABLE 4.5

Federal Government Financing 2008 – 2009

	RM million		Share (%)	
	2008	2009 ¹	2008	2009 ¹
Gross borrowings	60,472	93,299	100.0	100.0
Domestic	60,000	93,000	99.2	99.7
Investment Issues	16,500	29,000	27.3	31.1
Government Securities	43,500	64,000	71.9	68.6
External	472	299	0.8	0.3
Market loans	-	-	-	-
Project loans	472	299	0.8	0.3
Repayments	25,292	42,817	100.0	100.0
Domestic	24,346	36,100	96.3	84.3
External	946	6,717	3.7	15.7
Net Borrowings	35,180	50,482		
Domestic	35,654	56,900		
External	-473	-6,418		
Change in assets²	414	633		
Total	35,594	51,115		

¹ Estimate.

² (+) indicates a drawdown of assets.

Note: Total may not add up due to rounding.

Government Investment Issues (GIIs). MGS continues to be the largest source of funding, accounting for 68.8% of the total gross domestic borrowings. Of the total issuance of MGS, five new issues amounting to RM20.5 billion will be raised through open tender, two new issues amounting to RM2 billion, through private placement while the remaining RM41.5 billion, through the reopening of 12 existing MGS. During the first nine months of the year, coupon rates for new issues of MGS with 5 and 10 year maturities ranged between 3.74% - 4.38% per annum, compared with 3.46% - 3.58% for MGS with similar maturities during the same period in 2008.

The Government is also expected to issue nine new Government Investment Issues (GIIs) up to RM29 billion for the year, including three through private placement. As at end-June 2009, the major holders of MGS and GIIs were the Employees Provident Fund (40.6%), foreign holders (10.1%), banking institutions (24.3%) and insurance companies (7.5%). The regular issuance of Government securities provides the benchmark yield curve for further development of the domestic bond market.

In line with the Government's objective to reduce external debt and minimise exposure to foreign exchange risks, no new external borrowings are envisaged for the year. In fact, repayment of existing loans has exceeded drawdowns since 2005. A total of RM299 million is expected to be drawn down from bilateral (RM218 million) and multilateral (RM81 million) sources to finance ongoing projects and programmes related to education and training, power generation, water supply, sewerage services, as well as ICT infrastructure and rail transport.

Debt

Debt remains manageable...

The Government will ensure that debt level remains sustainable through the adoption of sound macroeconomic policies and efficient debt monitoring system. As at end-June 2009, national debt remained low at 33.7% of GDP (2008: 32.0%) while Federal Government debt is projected to be higher in 2009.

TABLE 4.6

Federal Government Debt 2008 – 2009

	RM million		Share (%)		GDP (%)	
	2008	2009 ¹	2008	2009 ¹	2008	2009 ¹
Domestic debt	286,121	348,621	93.4	96.2	38.7	50.4
Treasury Bills	4,320	4,320	1.4	1.2	0.6	0.6
Investment Issues	42,500	66,500	13.9	18.3	5.8	9.6
Government Securities	213,801	246,701	69.8	68.1	28.9	35.7
Housing Loan Fund	25,500	31,100	8.3	8.6	3.5	4.5
External debt	20,316	13,898	6.6	3.8	2.8	2.0
Market loans	11,891	6,054	3.9	1.7	1.6	0.9
Project loans	8,425	7,844	2.7	2.2	1.1	1.1
Total	306,437	362,520	100.0	100.0	41.5	52.4

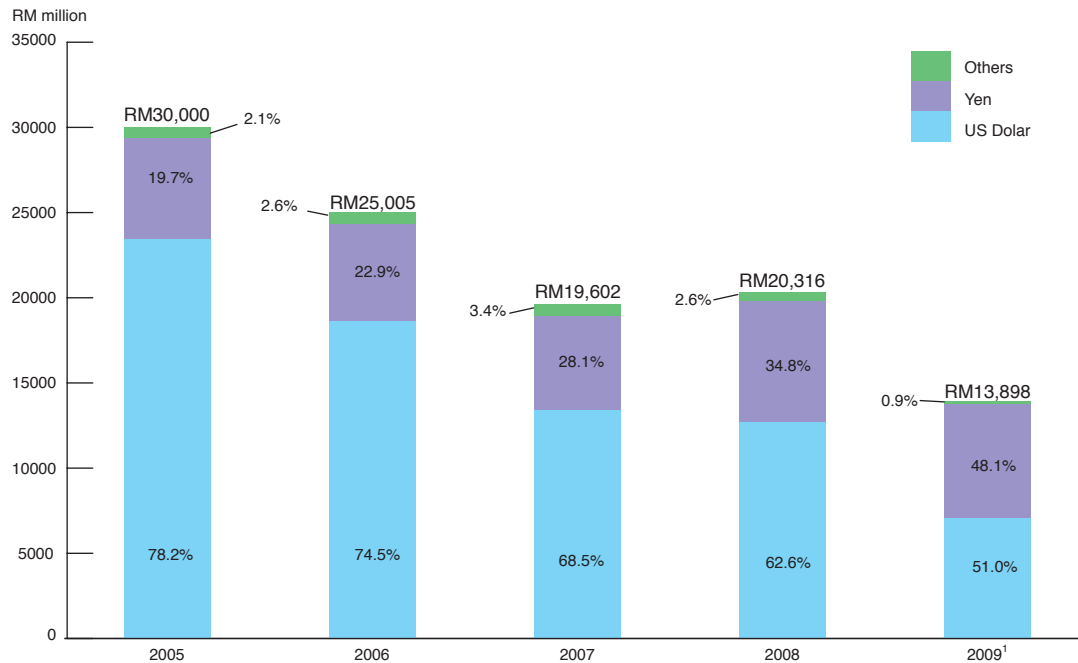
¹ Estimate.

Note: Total may not add up due to rounding.



CHART 4.2

Federal Government External Debt By Currency



¹ Revised estimate.

² Includes pound sterling.

Note: Figures in bar chart denote % share.

TABLE 4.7

National Debt
2008 – 2009

	RM million		Share (%)		GDP (%)	
	2008	2009¹	2008	2009¹	2008	2009¹
Medium-and long-term debt	156,546	147,028	66.3	63.0	21.2	21.2
Public sector	83,462	72,890	35.3	31.2	11.3	10.5
Federal Government	20,316	14,262	8.6	6.1	2.8	2.1
NFPEs	63,146	58,628	26.7	25.1	8.5	8.5
Guaranteed	14,547	13,831	6.2	5.9	2.0	2.0
Non-guaranteed	48,599	44,797	20.6	19.2	6.6	6.5
Private sector	73,084	74,138	30.9	31.8	9.9	10.7
Short-term debt	79,635	86,275	33.7	37.0	10.8	12.5
Total	236,181	233,303	100.0	100.0	32.0	33.7

¹ As at end-June 2009.

Total **Federal Government debt** is expected to increase 18.3% to RM362.5 billion as at end 2009 (end-2008: 14.9%; RM306.4 billion) mainly due to higher domestic borrowing to meet financing requirements. Hence, the Federal Government debt to GDP ratio will be higher at 52.4% (end-2008: 41.5%). Although debt level has increased in recent years, the debt servicing capacity remains strong and is a mandated expenditure item. The Federal Government external debt as a percentage of total debt continues to trend downwards at 3.8% (2008: 6.6%) and is mainly denominated in US dollars and yen. Total debt service charges as a proportion of operating expenditure and revenue remain manageable at 8.4% and 8.3%, respectively (2008: 8.3%; 8.0%).

National debt, comprising the external debts of the Federal Government, Non-Financial Public Enterprises (NFPEs) and the private sector declined to RM233.3 billion as at end-June 2009 (end-2008: RM236.2 billion). The decrease was due to net repayment of medium- and long-term debt by the public and private sectors. The Federal Government and the NFPEs recorded higher gross repayments following the maturity of several borrowings and scheduled principal repayment of loans. Meanwhile, the private sector registered a net repayment mainly due to repayment of inter-company loans, largely by the manufacturing sector.

Medium- and long-term debt accounted for 63.0% of national debt and was mainly denominated in US dollars. Of this, the Federal Government's component constituted 9.7%, while NFPEs, 39.9% and the private sector, 50.4%. Meanwhile, short-term debt amounted to RM86.3 billion as at end-June 2009 as inter-bank borrowing activities increased. The banking sector remains the largest holder of short-term debt accounting for 88.8% or RM76.6 billion while the balance was held by the non-bank private sector. External debt service ratio was 8.0%, reflecting the sustainability of export earnings to service debt obligations. As at end-June 2009, the international reserves were more than sufficient to cover 3.7 times the short-term debt.

State Governments

Small deficit...

The consolidated financial position of state governments is projected to record a lower current account surplus of RM7.2 billion (2008: RM8.9 billion) due to higher operating expenditure and a decline in revenue. With growth in development expenditure also expected to outpace revenue, the consolidated financial position will register a small deficit of RM367 million, the first since 2003 (2008: RM2 billion). The overall deficit will be financed largely by Federal Government grants and loans as well as the use of accumulated financial assets of state governments.

Total revenue is projected to decline 4.8% to RM16.3 billion (2008: 27.1%; RM17.2 billion) mainly due to contraction in indirect taxes and lower returns on investment. Royalties from

TABLE 4.8

Consolidated State Governments Financial Position 2008 – 2009

	RM million		Change (%)	
	2008	2009 ¹	2008	2009 ¹
Current account				
Revenue	17,152	16,330	27.1	-4.8
Operating expenditure	8,204	9,141	13.1	11.4
Current account balance	8,948	7,190		
Development account				
Gross development expenditure	7,284	8,163	10.1	12.1
Development fund	6,803	7,699	8.7	13.2
Water supply fund	481	464	35.5	-3.5
Less: Loan recovery	311	606	-34.8	94.9
Net development expenditure	6,973	7,557	13.6	8.4
Overall balance	1,976	-367		
% of GDP	0.3	-0.1		

¹ Revised estimate.

Note: Total may not add up due to rounding.



petroleum and forestry, investment income, land premiums and other land-related taxes are the major contributors to the state governments' revenue accounting for 53.3%. Other sources of revenue include fees from licences and permits, rents as well as receipts from the provision of services. Grants and reimbursements from the Federal Government will amount to RM2 billion or 12.2% of state revenue.

In line with efforts to continuously improve public amenities and service quality, state governments are expected to incur higher operating and development expenditure. Operating expenditure is expected to increase 11.4% to RM9.1 billion, while development expenditure, 12.1% to RM8.2 billion. Emolument as well as supplies and services remain the largest component of total operating expenditure at 59.6%, while the balance is for asset acquisition and transfers to local authorities, statutory bodies and other trust funds. Development expenditure will be utilised for agriculture and rural development, drainage and irrigation, water supply projects, housing, public amenities and infrastructure.

General Government

Higher commitments...

The fiscal position of the general government comprising the consolidated accounts of the Federal Government, state governments, local

authorities and statutory bodies, after netting out intra-government transfers and lending, is expected to register a higher deficit of RM46.6 billion or 6.7% of GDP in 2009 (2008: -RM27.5 billion; -3.7%). Estimated lower revenues and increased expenditure commitments by the Federal Government, statutory bodies and state governments account for the widening overall deficit. In 2009, the Federal Government allocated RM12.4 billion and RM4.9 billion to statutory bodies and state governments in the form of grants and transfers through its operating expenditure.

Non-Financial Public Enterprises

Higher current surplus...

In tandem with the challenging operating environment, the consolidated revenue of NFPEs is envisaged to decline 14.4% to RM316.3 billion in 2009 (2008: 16.4%; RM369.6 billion). This is on account of lower crude oil demand, weak commodity prices and poor sales performance which are expected to impact industry margins. The consolidated current expenditure is also anticipated to contract sharply to RM234 billion, a decline of 24.5% (2008: RM310 billion; 29.9%). Major contributing factors include reduced import bills and cost of raw materials, lower debt servicing charges as well as cost-cutting

TABLE 4.9

Consolidated General Government Financial Position 2008 – 2009

	RM million			Change (%)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
Current account						
Revenue	189,644	185,107	176,331	16.7	-2.4	-4.7
Operating expenditure	166,295	175,578	156,750	22.7	5.6	-10.7
Current account balance	23,349	9,529	19,581			
Development expenditure	50,808	56,162	55,461	13.1	10.5	-1.2
Overall balance	-27,459	-46,633	-35,881			
% of GDP	-3.7	-6.7	-5.0			

¹ Revised estimate.

² Budget estimate, excluding 2010 tax measures.

Note: Total may not add up due to rounding.

GLC Transformation – Progress and Challenges¹

Introduction

Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs) refer to business entities in which the Government has a controlling stake². While GLCs undertake business activities, GLICs on the other hand, invest in selected and strategic companies, including GLCs.

The 33 GLCs listed on Bursa Malaysia, which account for only 4.0% of the total listed companies have a market capitalisation of RM235.5 billion or 49% of total capitalisation and employ more than 300,000 people. The GLCs remain the primary providers of utility and infrastructure as well as banking and finance services. They are also key players of Corridor Developments such as Iskandar Malaysia, East Coast and Northern Economic Regions. Given their size and extensive business activities, they have significant impact on the economy, contributing about 17% of the nation's gross fixed capital formation and account for almost 10% of GDP.

GLC Transformation Programme

Historically, GLCs underperformed the broader Malaysian market – a trend that poses risks to the country's efforts towards achieving Vision 2020. To reverse the trend, the Government embarked on GLCs transformation as a national priority and integral to realising Vision 2020. To transform GLCs and GLICs into high performing entities, the Government-Linked Companies Transformation (GLCT) Programme was launched in 2004. The Putrajaya Committee on GLC High Performance (PCG) was established in 2005 to provide guidance and monitor the progress of the Transformation Programme. The Programme is a 10-year effort to raise the performance of GLCs to be at least on par with domestic competitors, with several developing into regional or global champions by 2015.

The GLCT Programme was based on three key underlying principles:

- i. National development – the Programme is an integral element to advance broader national development strategies that include growth with equity, improving total factor productivity, develop human capital and *Bumiputera* business community;
- ii. Performance focus – to create economic and shareholder value through improved performance; and
- iii. Governance – enhance governance within GLCs as well as engage and manage stakeholders' expectations (e.g. employees, customers, suppliers, and the Government).

Progress

After five years, tangible results are emerging. The Government's support and commitment enabled GLCs to accelerate change efforts. PCG maintained the transformation momentum by monitoring the GLCs through a set of key performance indicators strategically aligned with the broader goals of GLCT. Changes in GLC Senior Management and Board composition were key transformation initiatives that led to significant financial and operational improvements.

The Transformation Programme began with GLCs embarking on cost-cutting and balance sheets restructuring measures, which were necessary to lay the foundations for healthy growth. The immediate impact was a drop in aggregate earnings of G-20 in 2005³. However, it was followed by several years

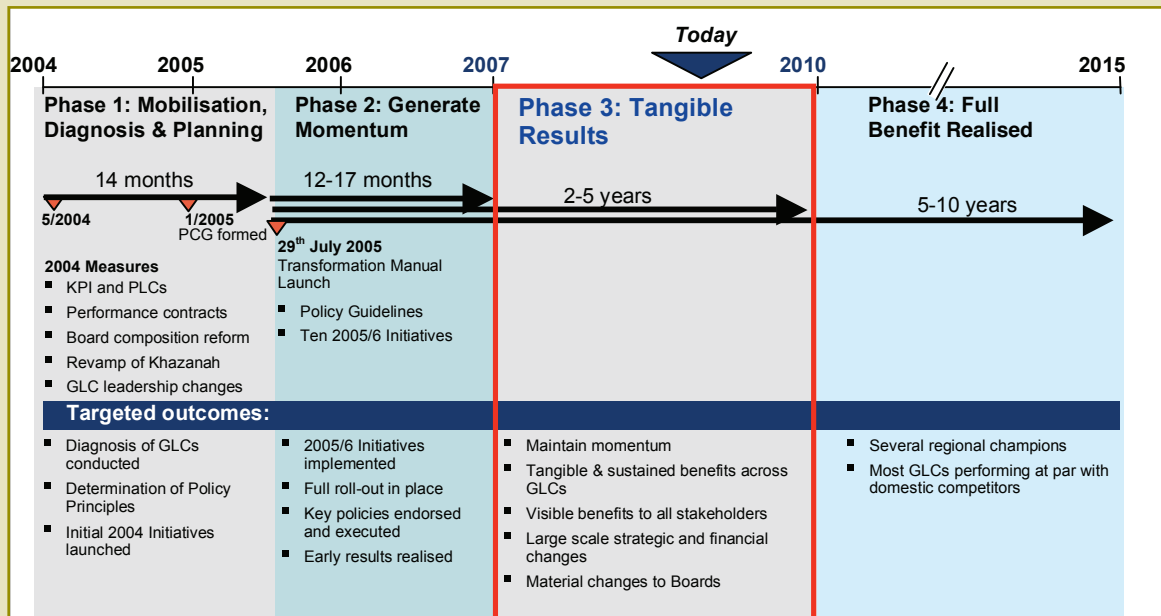
¹ This feature article was prepared with inputs provided by Khazanah Nasional Berhad.

² Government-Linked-Investment-Companies (GLICs) comprise Khazanah Nasional Berhad, Permodalan Nasional Berhad, Employees Provident Fund, Lembaga Tabung Haji and Lembaga Tabung Angkatan Tentera

³ G-20 is a selection of companies controlled by the GLICs. As of February 2009, there are 19 GLCs following the Sime Darby merger and TM de-merger.



GLC Transformation Programme

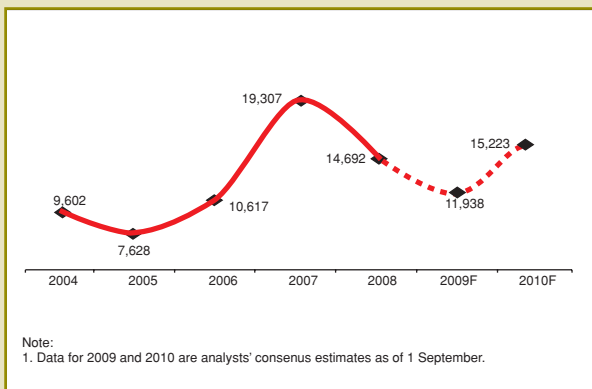


Source: GLCT Manual, July 2005

of solid growth, as the initial restructuring efforts started to produce results. Several other initiatives include operational turnaround programmes (MAS and Bank Islam), strategic repositioning through mergers (Sime Darby Berhad) and de-mergers (TM and Axiata) as well as regional expansions (CIMB). These efforts resulted in some GLCs posting higher profits (Bumiputra-Commerce Holdings Berhad, Sime Darby Berhad and Axiata).

Though aggregate earnings fell 24.0% in 2008 due to the global economic slowdown, it was still 53.0% higher than in 2004. The majority of G-20 are now reporting positive economic profits⁴. G-20

Aggregate Earnings of G-20 (RM million)



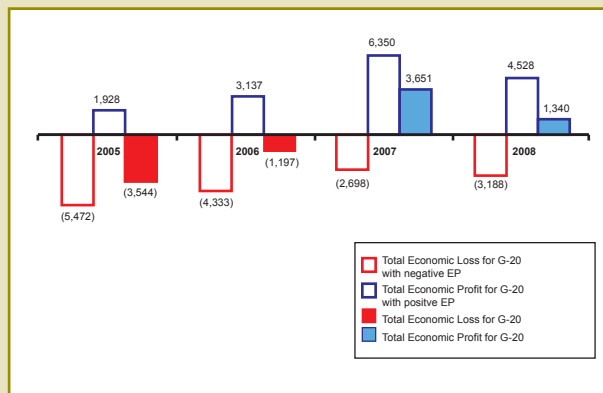
Source: G-20 Annual Reports, Bloomberg and PCG Analysis.

Composition of G-20

1. AFFIN HOLDINGS BERHAD
2. BIMP HOLDINGS BERHAD
3. BUMIPUTRA-COMMERCE HOLDINGS BERHAD
4. BOUSTEAD HOLDINGS BERHAD
5. CHEMICAL COMPANY OF MALAYSIA
6. GOLDEN HOPE PLANTATIONS BERHAD
7. KUMPULAN GUTHRIE BERHAD
8. MALAYSIAN AIRLINE SYSTEM BERHAD
9. MAYBANK
10. MALAYSIA AIRPORTS HOLDINGS
11. MALAYSIA BUILDING SOCIETY BERHAD
12. MALAYSIAN RESOURCES CORPORATION BERHAD
13. POS MALAYSIA & SERVICES HOLDINGS
14. PROTON HOLDINGS BERHAD
15. SIME DARBY BERHAD
16. TELEKOM MALAYSIA BERHAD
17. TENAGA NASIONAL BERHAD
18. TH PLANTATIONS
19. UEM WORLD
20. UMW HOLDINGS BERHAD

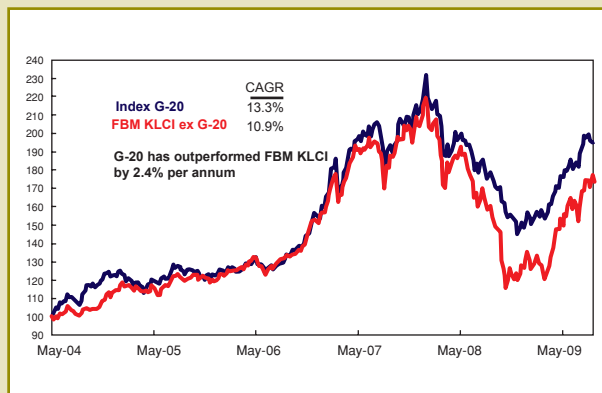
⁴ Economic profits - measure of value creation over its cost of capital.

Trend Analysis of G-20 Economic Profit (EP) from 2005 to 2008 (RM million)



Source: G-20 Financial Reports and PCG Analysis

Total Shareholders Return Index (14 May 2004 – 1 September 2009)



Source: Bloomberg and PCG Analysis

have also made significant operational improvements with total shareholder returns outperforming the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI), by 2.4% on a compounded annual growth rate (CAGR) basis⁵. Market capitalisation is also 60.0% or RM96 billion higher since the launch of the GLCT Programme.

With better GLCs' performance, stakeholders benefited from improved services delivery, human capital development and better employment prospects as well as best practices in procurement and vendor development programmes. In addition, GLCs have stepped up their corporate social responsibility initiatives and made significant contribution in education, environmental protection and community welfare.

Transformation Challenges

As Phase 3 of the Transformation Programme nears completion, a number of critical issues need to be addressed, including:

- Managing human capital – massive gap in talent management, execution skills and capabilities.
- Aligning interests of all key stakeholders – clarifying and reconciling developmental and commercial roles and managing stakeholder expectations.
- Effective communications with stakeholders – communicate fully the programme objectives and benefits to enhance stakeholder buy-in.
- Strengthening public delivery system – public sector to support the efforts of the GLCs.

The GLCT Programme will focus on intensifying efforts to institutionalise best practices across all GLCs to meet their objectives. To this end, the roles of the five principal change agents of the Programme, which include the Senior Management, the Boards, GLICs, the Government as well as PCG will need to keep pace with a rapidly challenging environment. Collectively, the transformation momentum must be accelerated with agility to respond to competitive pressures.

⁵ CAGR since the inception of the Programme up to 1 September 2009.



Transformation Agents Have Pivotal Role to Play

	Priorities	Key Roles
GLCs Senior Management	- Redefine aspirations - Strengthen execution momentum - Build stakeholder buy-in	- Develop business transformation plan that incorporates GLCT aspirations - Build execution capabilities - Instill conviction for change amongst employees - Actively engage stakeholders buy-in
GLC Boards	Upgrade capabilities of Board, CEO and Senior Management	- Accelerate critical improvements to GLC Boards - Facilitate capability building of CEO and Senior Management
GLICs	Continue to catalyse and accelerate change as active stakeholders	- Institutionalise capabilities to intensify active monitoring of GLCs - Role-model for GLCT implementation
Government	Continue to provide visible support and commitment to the GLCT Programme	- Provide opportunity to build broader understanding and support across Government agencies - Provide opportunity to continue adoption of best practices and guidelines on transformation efforts in public sector
PCG	Maintain momentum of GLCT Programme through Phase 3	- Institutionalise initiatives - Provide enabling environment to produce regional / global champions - Focus on communications and stakeholder engagement - Intensify Programme-level monitoring and performance pressure

Source: PCG Analysis

Conclusion

GLCs remain committed to the long-term goals of the Transformation Programme. Despite the achievements to date, further improvements are required to sustain performance in an increasingly competitive environment. As with any long-term transformation programme, it is critical to continually reaffirm its mandate, focus on implementation and constantly evaluate the programme achievements. This will ensure transformation objectives are achieved by 2015.

measures instituted to streamline operations. The operating surplus is expected to expand 38.1% to RM82.3 billion, contributed mainly by PETRONAS, *Tenaga Nasional Berhad* (TNB) and *Telekom Malaysia Berhad* (TM).

Consistent with global trends in private investment, overall development expenditure of major NFPEs is anticipated to contract 6.8% to RM68.8 billion (2008: 43.2%; RM73.8 billion) in 2009. However, domestic investment will see a marked increase of 21.4% to RM47.5 billion (2008: 17.4%; RM39.1 billion) with the bulk of capital investment directed towards the oil and gas industry, power generation, transmission and distribution,

housing, public transport, telecommunications and infrastructure such as roads and bridges. Nevertheless, over the years NFPEs have increasingly ventured abroad to expand and diversify their business interests mainly in oil and gas, telecommunications and construction.

The consolidated financial position of the NFPEs is projected to post a higher overall surplus of RM13.5 billion (2008: -RM14.2 billion) attributed to a sharp decline in operating and capital expenditures which more than offset the fall in revenues. NFPEs continue to play a significant role in the economy through their involvement in commercial ventures,

TABLE 4.10
**Consolidated NFPEs Financial Position¹
2008 – 2009**

	RM million		Change (%)	
	2008	2009 ²	2008	2009 ²
Revenue	369,614	316,331	16.4	-14.4
Current expenditure	309,976	233,998	29.9	-24.5
Retained income	59,639	82,333		
% of GDP	8.1	11.9		
Development expenditure	73,846	68,799	43.2	-6.8
Overall balance	-14,207	13,533		
% of GDP	-1.9	2.0		

¹ Refers to 30 major NFPEs.

² Revised estimate.

Note: Total may not add up due to rounding.

corridor development, provision of public utilities, education, skills development and training as well as corporate social responsibility (CSR) activities.

Consolidated Public Sector

The financial position of the consolidated public sector comprises the general government and NFPEs. In 2009, the consolidated public sector is expected to post a higher current account surplus of RM91.4 billion (2008: RM82.7 billion) contributed mainly by NFPEs. With development expenditure remaining high at RM124.5 billion (2008: RM124.4 billion), the consolidated public sector financial position is envisaged to register an overall deficit of RM33.1 billion or 4.8% of GDP (2008: -RM41.7 billion; -5.6% of GDP).

TABLE 4.11
**Consolidated Public Sector Financial Position
2008 – 2010**

	RM million			Change (%)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
Revenue	128,350	122,937	114,258	15.9	-4.2	-7.1
Operating expenditure	165,025	175,066	156,261	22.2	6.1	-10.7
NFPEs current surplus	119,360	143,574	145,778	-8.2	20.3	1.5
Public sector current balance	82,684	91,445	103,775			
Development expenditure	124,369	124,546	110,245	29.1	0.1	-11.5
General government	50,522	55,747	55,087	12.9	10.3	-1.2
NFPEs	73,846	68,799	55,158	43.2	-6.8	-19.8
Overall balance	-41,685	-33,101	-6,470			
% of GDP	-5.6	-4.8	-0.9			

¹ Revised estimate.

² Budget estimate, excluding 2010 tax measures.

Note: Total may not add up due to rounding.



Prospects for 2010

Fiscal consolidation resumes...

The domestic economy, spurred by higher public sector spending and private consumption in 2009 is envisaged to experience a mild recovery in 2010. The thrust of fiscal policy in 2010 is to strengthen and sustain the recovery process by further boosting domestic demand. Economic activity will be accelerated through revitalising private investment and consumption activity while ensuring all public sector projects and programmes under the stimulus packages and the Ninth Malaysia Plan (9MP) are completed on schedule. The emphasis on key performance indicators (KPIs) and key result areas (KRAs) at various levels in the public sector will further provide impetus to ensure greater accountability and timely delivery of outcomes.

With the economy contracting in 2009, and modest recovery anticipated in 2010, Federal Government revenue is expected to decline 8.4% to RM148.4 billion. In consonance with prudent financial management, the Federal Government will align expenditures to available resources to ensure fiscal sustainability and macroeconomic stability. The total Federal Government budget will therefore be RM189.5 billion, a decline of 11.3% over 2009. Private sector activity is anticipated to pick-up following signs of recovery, enabling the Government to consolidate its fiscal position for greater policy flexibility in times of crisis. With lower revenues, coupled with prudent spending, the financial position of the Federal Government is expected to improve, registering a smaller deficit of 5.6% of GDP. Financing of the deficit will be primarily from non-inflationary domestic sources.

Operating expenditure is expected to decline markedly by 13.7% to RM138.3 billion due to lower expenditure on major components such as *subsidies* (RM20.9 billion), *supplies and services* (RM20.8 billion) as well as *grants to statutory bodies* (RM11.2 billion). While fiscal discipline is pursued with cut backs in discretionary expenditure, the Government will ensure that

productivity and quality of service delivery is not affected. Similarly, the welfare of the *rakyat*, in particular, the vulnerable groups, will not be compromised. The reduced allocation for overall subsidies is due, among others, to the absence of subsidies on food security, fuel cash rebate, sugar, flour and bread. Fuel subsidies, however, will be allocated a higher sum of RM10 billion or an increase of 10.7% in anticipation of rising crude oil prices. The provision for *emolument* (RM42.2 billion), *debt service charges* (RM15.9 billion) as well as *pensions and gratuities* (RM10.8 billion) will also be increased in line with rising commitments.

Development expenditure will be allocated RM51.2 billion in 2010, 4.4% lower than in 2009 as spending is expected to taper off with the completion of projects as scheduled under the 9MP. However, this is not expected to dampen economic activity as the rebound in the global economy, reinforced by accommodative fiscal and monetary measures in place are anticipated to provide momentum for continued growth. While providing support to sustain recovery in the short term, the 2010 Budget will also address the need to enhance the long-term growth potential of the economy. Focus will be on efforts to facilitate the transformation to a high-income economy by supporting private sector initiatives. Towards this end, resources will be directed towards strengthening niche growth areas in the services and manufacturing sectors. Emphasis will be on human capital development which is pivotal for the transformation while regional development will be given priority in tandem with efforts to foster holistic and sustainable development. Programmes and projects will also be implemented to ensure the well-being of the *rakyat*.

Allocation for the *economic services* sector under the 2010 Budget will be for transport and infrastructure development (RM6.7 billion), building capacity in trade and industry (RM4.4 billion), boosting agricultural productivity as well as accelerating rural development (RM3.1 billion). Public utilities continues to receive substantial allocation of RM3.7 billion, the bulk of which is for rural water supply and

electrification projects as well as sewerage services. Development of the five growth corridors will be expedited (RM3.5 billion) with emphasis on provision of infrastructure and public amenities, improving drainage, irrigation and agriculture infrastructure as well as developing tourism-related facilities.

Education and training, health, housing and welfare services are a priority under the *social services* sector. Education and training sub-sector is given the largest allocation of RM11.1 billion to meet the demand for skilled and knowledgeable workforce. Of this, RM4.5 billion is for higher education, RM2.9 billion for primary and secondary education while RM1.2 billion is for skills training programmes. Access to quality and affordable health care in urban and rural areas will be further enhanced. An allocation of RM3.6 billion will be utilised to build and upgrade hospitals and clinics as well as purchase equipment. Provision for housing amounts to RM1.5 billion mainly for the construction of low-cost houses and quarters for civil servants. Meanwhile, a higher allocation of RM2.6 billion is directed towards improving facilities and delivery of services at the local level.

Federal Government **revenue** is projected to be lower by 8.4% to RM148.4 billion largely due to a decline in the collection of PITA and returns

on investment. Lower production and price of crude oil in 2009 will impact petroleum-related revenues. Despite a marginal contraction of 2.8% in tax revenue, receipts from the main components such as company and individual taxes, export and excise duties as well as stamp duties are anticipated to improve in tandem with the recovery in the domestic economy and external sector.

The Government is committed to fiscal responsibility and sustainability over the medium-term while supportive of economic recovery. Towards this end, concurrent measures are underway to diversify sources of growth, enhance the revenue base as well as reduce dependence on oil-related revenues. The quality and efficiency of Government spending will be improved while procurement of goods and services, based on competitive bidding to ensure transparency and value for money. Subsidies will be reviewed to remain lean and well-targeted. The Government will also ensure optimum utilisation of its assets. Tax administration will be further enhanced. Through prudent financial management and implementation of pragmatic policies, the fiscal position of the Government will remain healthy. As economic recovery takes hold and becomes more entrenched, fiscal consolidation will be pursued.

