4

Public Sector Finance

Public Sector Finance

Overview

Fiscal policy supports economic transformation

The 2011 Budget sets the stage for the economic transformation of Malaysia beyond 2011. The Budget provides fiscal support for the timely implementation of programmes and projects under the Tenth Malaysia Plan (10MP), seven National Key Result Areas (NKRAs) as well as 12 National Key Economic Areas (NKEAs) while ensuring sustainability of public finances. Fiscal resources were geared towards reinvigorating private investment, intensifying human capital development, ensuring the well-being of the rakyat, strengthening public sector delivery as well as for completion of projects under the Ninth Malaysia Plan (9MP). To intensify the public-private partnership (PPP) in the development process, a Facilitation Fund was initiated to provide infrastructure support to ensure viability of private sector-led projects. The projects will be carefully selected for their strategic value and high multiplier impact on the economy.

Despite the heavy commitments, higher revenue collection during the year made it possible to accommodate additional needs amounting to RM17.6 billion. The expenditure was mainly for rising fuel and cooking oil subsidies due to higher commodity prices, welfare assistance, solid waste disposal and rural air services. The Government will continue to observe fiscal prudence in its spending without affecting the quality of service delivery. Subsidies for sugar and fuel, in particular, RON97 and diesel for specific categories, were further rationalised. Measures to rein in expenditure included an audit of posts, redeployment of staff and cutbacks in discretionary spending. For the first time, value management has been instituted for all new projects exceeding RM50 million to ensure cost optimisation. A rigorous monitoring mechanism was also put in place to ensure greater accountability for timely project implementation.

Fiscal consolidation will be pursued, albeit judiciously, without jeopardising the growth momentum of the economy, as well as supporting macroeconomic policies that boost domestic economic resilience over the longer term. The budget deficit of the Federal Government will, therefore, be gradually reduced from 5.6% of Gross Domestic Product (GDP) in 2010 to 5.4% in 2011. The public sector will continue to facilitate private sector activities through clear, consistent and coherent business-friendly policies, regulatory reforms as well as undertake continuous improvements in service delivery. Given its supportive role in the economy, the public sector is expected to expand 7.6% in 2011, accounting for 24.9% of GDP (2010: 1.5%; 24.3%).

Federal Government

Lower fiscal deficit

Favourable revenue collection during the year afforded room for the Government to absorb higher commitments. Nevertheless, the sluggish external environment will continue to impact Government finances. It is, therefore, imperative to rein in the fiscal deficit, stabilise or reduce the rate of debt accumulation while adopting the right policy mix to strengthen private demand. The Government, therefore, has to manage the delicate balance between supporting growth momentum while staying the course of prudent financial management.

TABLE 4.1

Federal Government Financial Position
2010 – 2012

	RM million			Change (%)		
	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]
Revenue	159,653	183,375	186,906	*0.6*	*14.9*	*1.9*
Operating expenditure	151,633	180,283	181,584	*-3.5*	*18.9*	*0.7*
Current balance	**8,020**	**3,091**	**5,322**			
Gross development expenditure	52,792	49,305	49,249	*6.6*	*-6.6*	*-0.1*
Less: Loan recovery	1,496	702	906			
Net development expenditure	51,296	48,603	48,343	*4.7*	*-5.2*	*-0.5*
Overall balance	**-43,275**	**-45,511**	**-43,021**			
% of GDP	***-5.6***	***-5.4***	***-4.7***			

[1] Revised estimate.
[2] Budget estimate, excluding 2012 tax measures.

Note: Total may not add up due to rounding.

Revenue

Strong revenue collection

Federal Government revenue in 2011 is projected to be favourable amid sustained expansion of the domestic economy coupled with strong external demand for commodities. Total revenue collection, the highest to date, is expected to register a robust growth of 14.9% to RM183.4 billion or 21.6% of GDP (2010: 0.6%; RM159.7 billion; 20.8%) supported by a double-digit growth in tax revenue and a strong rebound in non-tax revenue. Tax revenue, accounting for 70.4% of total revenue, is projected to increase 18% to RM129.2 billion (2010: 68.6%; 2.8%; RM109.5 billion) while non-tax revenue is expected to be higher by 8.1% to RM54.2 billion (2010: -3.8%; RM50.1 billion).

Direct tax is anticipated to increase significantly by 22.1% to RM96.5 billion (2010: 0.8%; RM79 billion). Revenue from corporate income tax is expected to increase 21.2% to RM44 billion (2010: 20.1%; RM36.3 billion), reflecting continued improvements in corporate profitability.

Likewise, individual income tax collection is projected to increase 10.6% to RM19.7 billion (2010: 14.2%; RM17.8 billion) on account of steady increase in personal income.

Despite lower production volume, strong demand for crude oil, particularly from emerging economies is expected to boost revenue from petroleum income tax (PITA). The crude oil price (Tapis) which averaged USD84 per barrel in 2010 and currently at USD117 per barrel as of 28 September 2011, is expected to remain elevated for the rest of the year. Consequently, receipts from PITA are projected to rebound strongly by 38.9% to RM26 billion (2010: -31.3%; RM18.7 billion). Another contributing factor is the change in the tax treatment for assessing PITA effective 1 January 2010. PITA, which had been assessed on a preceeding year basis till 2009, is now self-assessed, and upstream petroleum companies are allowed to settle PITA on income received in 2009 by instalments over five years. In tandem with higher business transactions, revenue from stamp duties (RM4.6 billion), real property gains tax (RPGT) (RM369 million) and withholding tax (RM1.4 billion) is expected to remain firm.

TABLE 4.2

Federal Government Revenue 2010 – 2012

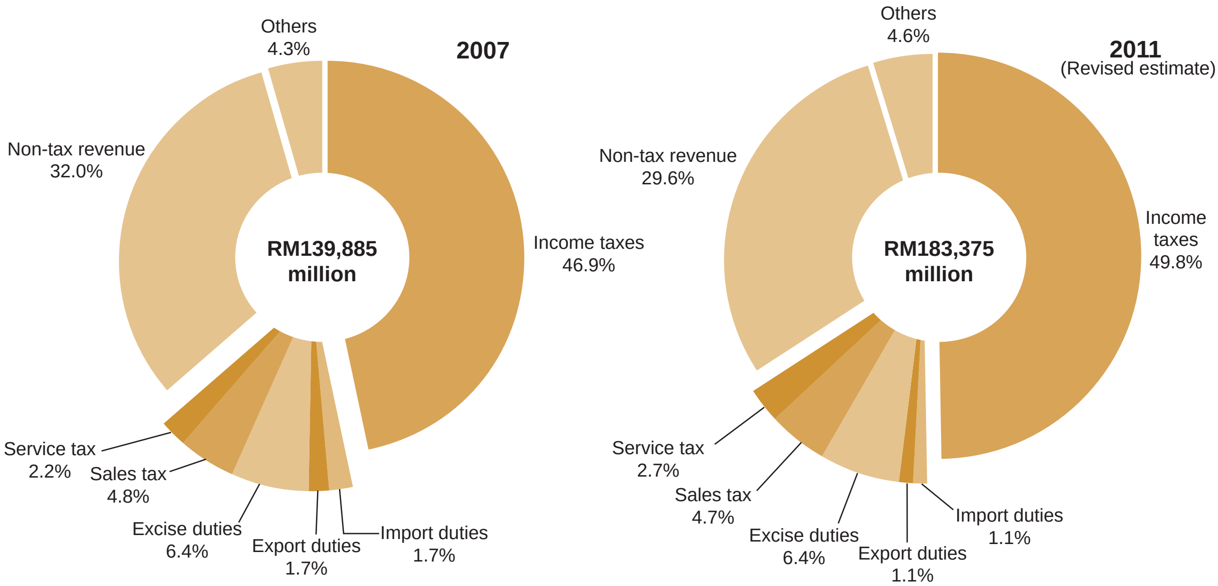
	RM million			Change (%)			Share (%)		
	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]
Tax revenue	**109,515**	**129,182**	**135,618**	***2.8***	***18.0***	***5.0***	***68.6***	***70.4***	***72.6***
Direct tax	79,009	96,457	102,099	*0.8*	*22.1*	*5.8*	*49.5*	*52.6*	*54.6*
of which:									
Companies	36,266	43,970	47,470	*20.1*	*21.2*	*8.0*	*22.7*	*24.0*	*25.4*
PITA [3]	18,713	25,993	26,182	*-31.3*	*38.9*	*0.7*	*11.7*	*14.2*	*14.0*
Individual	17,805	19,696	21,347	*14.2*	*10.6*	*8.4*	*11.2*	*10.7*	*11.4*
Indirect tax	30,507	32,725	33,519	*8.5*	*7.3*	*2.4*	*19.1*	*17.8*	*17.9*
of which:									
Excise duties	11,770	11,783	11,881	*16.9*	*0.1*	*0.8*	*7.4*	*6.4*	*6.4*
Sales tax	8,171	8,605	8,965	*-5.0*	*5.3*	*4.2*	*5.1*	*4.7*	*4.8*
Non-tax revenue	**50,138**	**54,193**	**51,288**	***-3.8***	***8.1***	***-5.4***	***31.4***	***29.6***	***27.4***
of which:									
Licences and permits	10,331	11,137	11,701	*-3.3*	*7.8*	*5.1*	*6.5*	*6.1*	*6.3*
Investment income	34,576	37,832	33,980	*-7.5*	*9.4*	*-10.2*	*21.7*	*20.6*	*18.2*
Total revenue	**159,653**	**183,375**	**186,906**	***0.6***	***14.9***	***1.9***	***100.0***	***100.0***	***100.0***
% of GDP	***20.8***	***21.6***	***20.4***						

[1] Revised estimate.
[2] Budget estimate, excluding 2012 tax measures.
[3] Petroleum income tax.

Note: Total may not add up due to rounding.

CHART 4.1

Federal Government Revenue



Source: Ministry of Finance, Malaysia.

In 2010, the wholesale and retail trade was the largest contributor to tax revenue, followed by the oil and gas industry; hotels and restaurants; manufacturing; agriculture and forestry; and transport and communications. The total number of registered taxpayers as at end-July 2011 was 6.6 million. Of this, 6.1 million (92.7%) were individual taxpayers, 468,808 (7.1%) companies while the rest included societies and trust bodies. Taxable returns comprised 1,788,337 individuals and 94,569 companies.

The number of taxpayers using e-Filing has steadily increased since it was introduced in 2006. As at end-July 2011, more than 2.2 million taxpayers submitted their tax returns through e-Filing, an increase of 11.7% over 2010. The Inland Revenue Board (IRB) continues to enhance revenue collection through improving efficiency in tax submission, collection and administration. Efforts are also underway to improve compliance and widen the tax base through enforcement, field audits and investigations.

Revenue from **indirect tax** is anticipated to increase 7.3% to RM32.7 billion (2010: 8.5%; RM30.5 billion) on account of strong private consumption, continued expansion in manufacturing and business activities as well as favourable crude oil prices. Revenue from excise duties on imported and locally manufactured goods is expected to remain firm at RM11.8 billion contributed by sustained demand for goods such as motor vehicles, alcoholic beverages and cigarettes. The recent amendments to the Hire-Purchase Act 1967, which had initially resulted in slower vehicle registration, are not expected to impact negatively on excise duties, the largest component of indirect tax. Receipts from sales tax on imported and locally manufactured goods are also expected to remain stable at RM8.6 billion supported by sustained consumer spending and private investment activity. Service tax collection is expected to be boosted by an additional RM759 million to RM5 billion (2010: RM3.9 billion) with the increase in the rate of service tax from 5% to 6% as well as the imposition of a 6% service tax on paid television broadcasting services effective 1 January 2011. Meanwhile, receipts from export duty are anticipated to be higher by 12.6% to RM2 billion (2010: 57.1%; RM1.8 billion) despite lower export volume as price of Tapis is expected to remain elevated during the year. Crude oil is the largest contributor to export duties.

Receipts from import duties will continue to remain stable at RM2 billion in line with Malaysia's progressive commitments on liberalisation of tariffs under regional and bilateral trade agreements. Under Budget 2011, import duties ranging from 5% to 30% on 300 products popular with tourists as well as some daily-use items were abolished effective 15 October 2010. The duty-free status of the items is not expected to dent revenues. Levy collection on crude palm oil (CPO), goods vehicles and electricity is anticipated to improve 82.3% to RM803 million (2010: 49.2%; RM440 million). This is on account of favourable CPO prices which are expected to remain above the threshold price of RM2,500 per tonne in Peninsular Malaysia and RM3,000 per tonne in Sabah and Sarawak. CPO prices up to 27 September 2011 averaged RM3,368 per tonne (2010: RM2,701 per tonne).

Non-tax revenue, accounting for 29.6% of total revenue, is estimated at RM54.2 billion, an increase of 8.1% over 2010 (2010: 31.4%; RM50.1 billion; -3.8%). Investment income, the main source of non-tax revenue, is expected to increase 9.4% to RM37.8 billion (2010: -7.5%; RM34.6 billion) in consonance with improved returns from sustained expansion in private sector activity domestically and abroad. Major contributors to dividend income are PETRONAS (RM30 billion), Bank Negara Malaysia (RM2 billion), Khazanah (RM500 million) and Ministry of Finance Incorporated (MOF Inc) companies. Meanwhile, proceeds from licences, registration fees and permits are expected to increase 7.8% to RM11.1 billion (2010: -3.3%; RM10.3 billion). The higher price of Tapis, despite lower production volume, is expected to boost contribution of petroleum royalties (RM5.1

billion) to non-tax revenue. Road tax collection (RM2.1 billion) is also anticipated to increase on account of higher sales of passenger and commercial vehicles. In addition, the increase in foreign workers levy by RM50 across all sectors effective 1 September 2011, is also expected to enhance levy receipts. The new levy imposed ranges from RM410 for the agriculture sector to RM1,850 for the services sector. As at end-August, a total of 2.3 million legal and illegal foreign workers have been registered under the biometric registration programme.

Other sources of non-tax revenue amounting to RM3 billion are expected to remain stable. Proceeds are mainly from the production of oil and gas under Malaysia-Thailand Joint Authority (MTJA) as well as fines and penalties estimated at RM1.3 billion and RM1.4 billion, respectively. In addition, non-revenue receipts comprising refunds of expenditure and receipts from Government agencies as well as revenue from the federal territories, are expected at RM1.1 billion.

Expenditure

Higher operating expenditure

The Federal Government total expenditure in 2011 is estimated at RM229.6 billion, an increase of 12.3% over 2010. Of this, RM180.3 billion is for operating expenditure while the balance, RM49.3 billion for development expenditure.

Operating expenditure is expected to increase at a faster pace of 18.9% in line with rising commitments due to high global fuel and commodity prices as well as to meet additional requirements during the year. The allocation also includes provision for transformation initiatives under the NKRAs (RM1.2 billion) and NKEAs (RM281 million). Consequently, the share of operating expenditure to total expenditure in 2011 will be higher at 78.5% (2010: 74.2%). Expenditure on **emoluments** remains the largest component of operating expenditure at 27.7% or RM49.9 billion (2010: 30.8%; RM46.7 billion). The increased provision includes the half-month bonus

TABLE 4.3

Federal Government Operating Expenditure by Object
2010 – 2012

	RM million			Change (%)			Share (%)		
	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]
Emoluments	46,663	49,913	52,017	9.1	7.0	4.2	30.8	27.7	28.6
Debt service charges	15,621	18,517	20,453	9.8	18.5	10.5	10.3	10.3	11.3
Grants to state governments	4,689	5,511	5,846	-4.2	17.5	6.1	3.1	3.1	3.2
Pensions and gratuities	11,515	12,957	12,088	13.5	12.5	-6.7	7.6	7.2	6.7
Supplies and services	23,841	29,532	30,480	-9.6	23.9	3.2	15.7	16.4	16.8
Subsidies	23,106	32,798	33,197	13.6	41.9	1.2	15.2	18.2	18.3
Grants to statutory bodies[3]	12,407	13,368	14,451	3.2	7.7	8.1	8.2	7.4	8.0
Refunds and write-off	601	1,083	1,362	8.4	80.2	25.8	0.4	0.6	0.8
Others	13,189	16,604	11,690	-48.7	25.9	-29.6	8.7	9.2	6.4
Total	**151,633**	**180,283**	**181,584**	**-3.5**	**18.9**	**0.7**	**100.0**	**100.0**	**100.0**
% of GDP	**19.8**	**21.3**	**19.8**						

[1] Revised estimate.
[2] Budget estimate, excluding 2012 budget measures.
[3] Includes emoluments.

Note: Total may not add up due to rounding.

payment with a minimum payment of RM500 to 1.27 million civil servants amounting to RM1.7 billion.

Several measures are underway to rationalise the size of the public service and create a leaner workforce. Effective 1 June 2011, the Government has frozen the hiring of new personnel or filling up vacancies to facilitate an audit of posts in all government departments with the aim of abolishing selected and non-critical as well as redeploying posts to more critical agencies.

Subsidies, the second largest component of operating expenditure at 18.2%, are expected to increase significantly by 41.9% to RM32.8 billion or 3.9% of GDP, despite the ongoing subsidy rationalisation programme (2010: 15.2%; 13.6%; RM23.1 billion; 3% of GDP). The category comprises various subsidies (RM22.5 billion), incentives (RM518 million) and social assistance programmes (RM9.8 billion). Among them are subsidies for fuel, sugar, cooking oil and incentives to increase food production as well as educational assistance and social welfare programmes.

Expenditure on fuel subsidies, accounting for 8.8% of operating expenditure, is expected to surge 65.1% to RM15.9 billion on account of rising crude oil prices (2010: 6.3%; 55.2%; RM9.6 billion). As an indicator, the price of Dated Brent averaged USD112 per barrel up to 28 September 2011 (2010: USD80 per barrel). As part of a measured approach to subsidy rationalisation, diesel 'super' subsidy of RM1.48 per litre for deep sea fishing vessels in Zone C2 (over 30 nautical miles) was removed effective 1 June 2011 to curb illegal sales and smuggling activities. While Zone C2 fishing vessels currently pay RM1.80 per litre for diesel, the incentive given for fish landed was increased from 10 sen to 20 sen per kilogramme (kg) to spur genuine fishing activity. Likewise, the diesel 'super' subsidy of RM1.48 per litre enjoyed by nine types of commercial vehicles such as general cargo movers, prime movers, water tankers, limo taxis, luton box lorries, vans (panel vans, semi-panel vans and window vans), rigid lorries (for bottled beverages, tankers for flour and refrigerated goods) was also abolished effective 1 June 2011. This category now pays the current subsidised pump price of diesel at RM1.80 per litre. The 'super' subsidy was, however, retained for vehicles such as school buses, taxis, ambulances, rental cars, fire trucks and hearses.

Additional measures were also introduced to clamp down on rampant abuse of fuel subsidies. All petrol stations in border areas are required to close operations at 10 p.m effective 1 June 2011 to minimise smuggling of diesel and subsidised petrol (RON95) across the border. There are, however, no restrictions on the sale of RON97, the premium grade petrol to foreigners. RON97, which is on a managed float, currently retails at RM2.90 per litre. As of 15 June 2011, Malaysians using foreign-registered vehicles were barred from buying RON95 and natural gas (NGV). The sale of diesel is also limited to 20 litres per vehicle from any station within a radius of 50 kilometres from the point of entry into the country. Although the price of Dated Brent remains elevated at USD105 per barrel as at 28 September 2011, the subsidy on the widely-used RON95 has not been removed as the Government is mindful of inflationary pressures on the rakyat. The rationalisation of sugar subsidy was continued through a 20 sen increase in its price to RM2.30 per kg effective 10 May 2011.

Subsidies to alleviate the financial burden of the rakyat include allocations to maintain the price of cooking oil (RM1.6 billion), toll compensation (RM200 million), flour (RM113 million), provision of comprehensive rural air and rail services (RM283 million) as well as rebate for low-income households consuming electricity below RM20 per month (RM150 million). In addition, subsidies for interest rate differentials amounting to RM1.6 billion will be provided for higher education student loans, microcredit schemes and to promote development in strategic areas such as tourism, public transport, green technology and maritime industry.

In 2011, RM2.9 billion is set aside for initiatives to achieve food self-sufficiency, improve productivity in the food sub-sector and maintain price stability of essential food items. The subsidies (RM2.4 billion) and incentives (RM518 million) are designed to assist farmers and fishermen implement programmes to increase food production. The initiatives include price subsidy for padi, fertilisers and padi seeds as well as incentives to increase padi yield. Similarly, fishermen, boat owners and workers are given incentives to improve fish landing. A monthly allowance of RM200 is given to boat owners and employees while 10 sen is given as an incentive for every kilogramme of fish landed.

Social assistance programmes are allocated RM9.8 billion in 2011. The first component amounting to RM7.2 billion comprises scholarships at all levels of education, professional career development and financial assistance to trainees at skills training centres and various educational assistance programmes. These include nutrition programmes, textbook aid and contribution to Kumpulan Wang Amanah Pelajar Miskin (KWAPM) (RM200 million).

The second component of social assistance programmes includes various forms of financial assistance (RM2.6 billion) extended to improve quality of life of the poor, senior citizens, disabled and other vulnerable groups. The sum includes RM438 million provided under the NKRA for low-income households designed to reduce hardcore poverty and reduce the incidence of poverty. Initiatives include training of women entrepreneurs, support to increase home ownership as well as income-generating activities to provide sustainable income and enhance productivity of the poor. A sum of RM37 million will be spent to further improve the standard of living of orang asli. Assistance provided includes nutritional, educational and welfare programmes as well as scholarships to institutions of higher learning and agriculture inputs to boost farm incomes.

Supplies and services, constituting 16.4% of operating expenditure, are expected to grow 23.9% to RM29.5 billion (2010: 15.7%; -9.6%; RM23.8 billion), reflecting increased commitments amid continuous efforts to improve public delivery services. Payments for professional and technical services; repairs and maintenance; supplies; rentals; communication and utilities account for the bulk of expenditure. Other items include expenditure related to travel, food and beverage. Initiatives to inculcate cost consciousness have been strengthened. To decrease electricity usage and increase energy efficiency, all Government departments are required to set their air conditioner temperature not less than 24ºC as well as use energy efficient light bulbs.

In contrast, the allocation for **asset acquisition** will be decreased by 18.6% to RM1.5 billion as innovative methods are applied to rein in expenditure by maximising utilisation of Government assets. Among measures taken include the Police utilising training facilities and housing pre-release prisoners in Army camps. Joint patrols on crime prevention have also been taken in Perak, Kelantan, Negeri Sembilan and at Kuala Lumpur International Airport. The collaboration between the Police and Armed Forces has led to optimising resource utilisation for public good as well as build camaraderie between them. Maritime enforcement has been streamlined to eliminate duplication of functions and duties between the Royal Customs, Marine Police and Malaysian Maritime Enforcement Agency (MMEA). The MMEA is now the sole maritime enforcement agency and has absorbed trained personnel and equipment from the Royal Customs and Marine Police.

Debt service charges are constitutionally required to be met before all other discretionary expenditures. In 2011, debt service charges are projected to increase 18.5% to RM18.5 billion (2010: 9.8%; RM15.6 billion) in tandem with rising debt stock although the Federal Government debt level is within the prudent limit of 55% of GDP. As a percentage of operating expenditure, debt service charges remain stable at 10.3%.

Grants to statutory bodies, which are primarily for payment of emoluments as well as supply and services, are anticipated to increase 7.7% to RM13.4 billion (2010: 3.2%; RM12.4 billion). The bulk of the grants will be disbursed to public institutions of higher learning (IPTAs), three teaching hospitals, Majlis Amanah Rakyat (MARA) and IRB. Meanwhile, a substantial allocation of RM5.5 billion is also provided for **grants and transfers to state governments**. **Pensions and gratuities** will amount to RM13 billion (2010: RM11.5 billion), including a special cash payment of RM500 to 617,637 pensioners in August 2011.

Development expenditure is projected lower at RM49.3 billion in 2011 (2010: RM52.8 billion), with the lapse of the direct fiscal injection of RM5 billion under the second stimulus package in 2010. The sum includes allocation for the implementation of reform initiatives under the six NKRAs (RM8.5 billion), 12 NKEAs (RM4.6 billion) as well as for the completion of projects under the 9MP (RM24.7 billion) and to cater for new projects under the 10MP (RM10.5 billion). In addition, RM1 billion is provided for the Facilitation Fund to implement projects of strategic value and high multiplier impact under the PPP. In terms of sectoral allocation, economic services remains the largest recipient at 57.2% followed by social services (32%), security (8.9%) and general administration (1.9%).

Project implementation under the 10MP will be different from previous development plans. The 10MP embraces greater stakeholder engagement through extensive consultations with states, parliamentarians, non-government organisations (NGOs) as well as the private sector towards achieving a developed and high-income economy by 2020. Beginning 2011, development programmes and projects are implemented on a two-year rolling basis and evaluated annually to assess their progress. This affords greater flexibility to respond swiftly to systemic shocks to the economy as well as undertake new policy directives in tandem with the Government's fiscal position. Value management analysis and life-cycle cost evaluation will be carried out for all new development projects above RM50 million to ensure value-for-money and cost optimisation. Funding for development projects will be linked to outcomes for effectiveness, accountability and transparency. In addition, a rigorous project monitoring system has been instituted to reduce wastage and delays in project implementation. The Implementation Coordination Unit (ICU), Performance Management and Delivery Unit (PEMANDU) and Project Management Unit (PMU) have been tasked to troubleshoot, address problems and accelerate project implementation to ensure projects and programmes are completed on schedule and within the allocation

TABLE 4.4

Federal Government Development Expenditure by Sector 2010 – 2012

	RM million			Change (%)			Share (%)		
	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]
Economic services	**26,121**	**28,201**	**29,819**	***-1.2***	***8.0***	***5.7***	***49.5***	***57.2***	***60.5***
of which:									
Agriculture and rural development	2,920	836	1,880	*-47.0*	*-71.4*	*124.8*	*5.5*	*1.7*	*3.8*
Trade and industry	6,987	9,317	5,052	*42.1*	*33.3*	*-45.8*	*13.2*	*18.9*	*10.3*
Transport	8,665	9,670	9,973	*-8.3*	*11.6*	*3.1*	*16.4*	*19.6*	*20.2*
Social services	**20,784**	**15,774**	**13,623**	***19.5***	***-24.1***	***-13.6***	***39.4***	***32.0***	***27.7***
of which:									
Education and training	12,046	10,363	8,537	*11.3*	*-14.0*	*-17.6*	*22.8*	*21.0*	*17.3*
Health	3,780	2,216	1,948	*46.8*	*-41.4*	*-12.1*	*7.2*	*4.5*	*4.0*
Housing	1,333	918	738	*-4.4*	*-31.2*	*-19.6*	*2.5*	*1.9*	*1.5*
Security	**3,970**	**4,373**	**4,383**	***0.3***	***10.2***	***0.2***	***7.5***	***8.9***	***8.9***
General administration	**1,917**	**957**	**1,424**	***10.8***	***-50.1***	***48.9***	***3.6***	***1.9***	***2.9***
Total	**52,792**	**49,305**	**49,249**	***6.6***	***-6.6***	***-0.1***	***100.0***	***100.0***	***100.0***
% of GDP	***6.9***	***5.8***	***5.4***						

[1] Revised estimate.
[2] Budget estimate.

Note: Total may not add up due to rounding.

approved. More than 7,240 projects and programmes will be implemented under the first rolling plan (RP1) which spans 2011 to 2012, giving emphasis to social and economic sectors. Of this, about 80% of the initiatives entail physical projects, while the rest include various programmes, funds and grants for strategic purposes, feasibility studies, human capital development and information communication technology (ICT).

Under the first year of RP1, the **economic services sector** is allocated RM28.2 billion in tandem with efforts to enhance competitiveness and productive capacity of the nation. Of this, the transport sub-sector is given the largest sum of RM9.7 billion (2010: RM8.7 billion) mainly for construction, maintenance and upgrading of roads and bridges, railways, airports, ports and jetties as well as rural infrastructure. Major projects from the 9MP include road works between Sapulut to Kalabakan in Sabah, construction of Seremban Middle Ring Road (Phase 3), East Coast Highway (LPT) Phase II from Jabur to Kuala Terengganu as well as upgrading of Pulau Indah Ring Road. Priority is also given to construction, maintenance and upgrading of rural and village roads nationwide, particularly in Sabah and Sarawak under the NKRA on improving rural basic infrastructure (RM6.6 billion). This is to improve access to urban centres and facilitate economic activities in rural areas. Rail projects under construction include the Ipoh – Padang Besar, Seremban – Gemas as well the Gemas – Johor Bahru electrified double-tracking projects. Provision is also made for the refurbishment and purchase of rolling stock for Keretapi Tanah Melayu Berhad (KTMB) as well as to enhance support services at KTM Komuter stations. Other development projects include the upgrading and expansion of Sibu, Kota Bharu and Ipoh airports as well as the KL Sentral traffic dispersal system.

A sum of RM1.4 billion is also allocated for the NKRA on urban public transport (UPT) which targets greater use of public transport to ease traffic congestion in the city. Projects to be implemented include upgrading facilities in KTM Komuter stations, construction of bus shelters, covered walkways, special bus lanes, car parks as well as park and ride facilities at light rail transit (LRT) stations and other public transport stations. Measures will also be taken to strengthen surveillance and enforcement to improve public safety. In a bid to provide a comfortable, efficient, reliable and integrated public transport system, the My Rapid Transit (MRT) project was launched in July 2011. The project, which is expected to transform the urban rail landscape as well as generate significant economic activity, is expected to be completed in stages from 2016 to 2020. An allocation of RM1.4 billion under NKEA Greater KL (Klang Valley) has been set aside to finance preliminary work on the first phase, the Sungai Buloh – Kajang Line which includes the cost of land acquisition and consultancy services.

The trade and industry sub-sector is allocated RM9.3 billion in 2011 (2010: RM7 billion). Major development programmes include upgrading infrastructure facilities in industrial areas, funding of strategic investment, skills and entrepreneur development as well as the vendor development programme for the automotive sector. Priority will continue to be given to further guide and develop as well as improve competitiveness of small and medium enterprises (SMEs). Accounting for 99.2% of total establishments, SMEs employ 56% of the workforce and contribute about 31% of GDP. Given their pervasive linkages in the economy, access to financing, technical and advisory services on product development, marketing, skills and technology enhancement will be facilitated. Allocation is also provided for the promotion, development and marketing of SME halal parks in various states. In addition, a sum of RM79.8 million is provided to SME Corporation Malaysia (SME Corp) for soft loans, the 1Malaysia Micro Enterprise programme, internship and apprenticeship programmes as well as skills upgrading. Funds will also be channelled to promote franchise business, modernise cooperatives as well as to state economic development corporations for the implementation of various development programmes.

Corridor and regional development will be given a boost through an allocation of RM506 million for comprehensive infrastructure support. The sum will be utilised for construction of roads, improving public transport services, development of tourist and housing areas as well as the building of industrial parks, water supply projects and treatment plants. Funds will also be allocated for special projects such as development of the Agricultural Products Processing Centre and the Biotechnology Incubator Centre in the Northern Corridor Economic Region (NCER) as well as palm oil industry cluster projects, the agro-industrial precinct and integrated farming centre in Sarawak Corridor of Renewable Energy (SCORE). While infrastructure development takes priority in Iskandar Malaysia, projects in Sabah Development Corridor (SDC) are more broad-based. They include the Palm Oil Industrial Cluster (POIC) in Lahad Datu and Sandakan as well as the development of agro-industrial precinct in Kimanis (Sabah) and Keningau Integrated Livestock Centre (KILC). In the East Coast Economic Region (ECER), emphasis is on the redevelopment of former Pahang Tenggara Development Authority and Jengka Region Development Authority areas as well as the construction of industrial parks in Pekan (Pahang) and Pasir Mas (Kelantan).

The tourism sub-sector is given RM162 million to upgrade tourism-related facilities and amenities, undertake intensive promotional activities at home and abroad as well as develop niche tourism products such as agro-tourism, art tourism and spa tourism. Existing programmes such as health tourism, eco-tourism and edu-tourism as well as homestay programmes and Malaysia My Second Home (MM2H) will be further strengthened. As of August 2011, MM2H has attracted more than 16,100 participants. Allocation is also provided to host more international events to attract high-end foreign tourists to Malaysia. In 2011, tourist arrivals are projected to be higher at 25.3 million (2010: 24.6 million).

Substantial allocation is provided to modernise and commercialise the agriculture sector. Towards this end, the agriculture and rural development sub-sector is allocated RM836 million or 1.7% of total development expenditure (2010: RM2.9 billion; 5.5%). Emphasis is on adoption of modern and commercial methods and agricultural best practices, higher value-added activities, upgrading of infrastructure, innovative marketing approaches as well as research and development (R&D). Drainage and irrigation infrastructure will be upgraded to ensure food security, increase self-sufficiency and improve quality of agricultural produce. High quality padi seeds will be used to enhance productivity in Muda Agricultural Development Area (MADA) and other padi growing areas. Padi farmers will also benefit from the ongoing construction of the Paya Peda dam project which will increase water supply to Skim Pengairan Padi in Besut (Terengganu). The dam is slated for completion by 2014. Provision is also made to develop large-scale integrated aquaculture zones in Pitas, Sungai Telaga and Sungai Padan (Sabah) to meet quality standards.

Permanent food parks and contract farming as well as small scale fruit and vegetable farms will continue to be given infrastructure support as they generate sustainable incomes for farming communities. To assist farmers, partnerships with anchor companies will be forged to ensure quality output as well as permanent shelf space in supermarkets. Meanwhile intensive efforts are underway to attract wider participation in high-value agriculture activities, including swiftlet farming and breeding of ornamental fish, shrimps as well as cultivation of seaweed, herbs, spices and floriculture. The Agriculture College in Kubang Pasu (Kedah) will be upgraded to provide diagnostic services while an International Centre for Crops of the Future, set up in Semenyih (Selangor) to conduct research on neglected and underutilised plant species, including annual and perennial crops with potential as staple foods, medicinal, bio-energy and constructional materials. Research findings will benefit farmers and ensure food security of the nation. Agriculture extension services and skills training will continue to be enhanced to improve the quality as well as ensure sustainability of farming activities. Poverty alleviation projects in Sabah and Sarawak include provision of basic infrastructure and income-generating activities such as livestock breeding, cultivation of fruits and vegetables as well as contract farming.

The public utilities, energy and communications sub-sectors will account for 13.6% or RM6.7 billion of total development expenditure (2010: 11.3%; RM6 billion). The allocation includes projects under the NKRA for improvement of rural basic infrastructure, particularly in Sabah and Sarawak. Substantial provision is also given to improve the quality of life in rural areas, including plantations nationwide. Emphasis will be on improving public amenities such as provision of uninterrupted water and electricity supply, as well as telecommunication facilities and sewerage services. Allocation is also provided for rain water harvesting in the interiors of Sabah and Sarawak. Access to public amenities and facilities will be extended to the urban poor. Other projects in the sub-sector include building water treatment facilities, improving urban drainage, programmes to reduce the rate of non-revenue water and the Pahang – Selangor inter-state raw water transfer. The implementation of high-speed broadband (HSBB) will be expedited and its coverage widened to Klang Valley and regional corridors. Funds are also provided to upgrade equipment for meteorological services as well as improving services of the Emergency Call Centre (999).

Developing and nurturing a solid, local talent base is a prerequisite towards achieving a developed and high-income economy. Hence, investment in human capital development remains an utmost priority. The Government will ensure that every child will have the widest access to quality education at all levels, from pre-school to higher education to realise his or her potential. Due emphasis is also given to lifelong learning to enhance quality and marketability. Hence, RM15.8 billion (2010: RM20.8 billion) is allocated to the **social services** sector, with the education and training sub-sector receiving the largest share amounting to RM10.4 billion or 21% of total development expenditure (2010: RM12 billion; 22.8%). Allocation is provided for the improvement of infrastructure and facilities, as well as maintenance and upgrading of equipment in universities, polytechnics and skills training centres as well as teacher training and community colleges. The optimal use of these facilities and equipment will be encouraged to obtain value-for-money.

Research, development and commercialisation (R&D&C) activities will be intensified to improve visibility and international ranking. Major ongoing projects involve upgrading and expansion of several universities including Universiti Teknologi MARA (UiTM), Universiti Kebangsaan Malaysia (UKM), Universiti Teknologi Malaysia (UTM), Universiti Sains Malaysia (USM) and Universiti Malaysia Perlis (UniMAP). Industry requirements will be met through intensive skills training programmes at Advanced Technology Training Centres (ADTECs), polytechnics, skills training centres and community colleges. Ongoing projects in 2011 include construction of polytechnics in Mersing, Nilai, Muadzam Shah, Jeli, Banting and Sandakan while industrial training institutes in Pasir Gudang, Labuan and Ipoh are being equipped. Substantial allocation will also be provided to strengthen pre-school (RM200 million), primary (RM1.3 billion) and secondary education (RM2.4 billion).

To attract Malaysian professionals working abroad, address talent needs for the ETP as well as nurture and retain skills within the country, Talent Corporation Malaysia Berhad (TalentCorp) was established in January 2011 with a launching grant of RM30 million. Malaysia recognises that it has to compete for its own talent in this globalised world. Among the key strategic initiatives taken to attract and retain talent include matching top Government scholars with strategic local companies, implementation of the Residence Pass which facilitates foreign talent to contribute to the country's development as well as improving the incentives package for Malaysian professionals to return home (Returning Expert Programme). Under the 1Malaysia Training Scheme (SL1M), graduate employability is being enhanced through apprenticeship and internship programmes with Bank Negara Malaysia, Khazanah and government-linked companies (GLCs). Training programmes are also offered on a part-time basis to enhance skills of industrial workers in technical fields such as mechanical and production, electrical and electronics (E&E), printing and non-metal as well as ICT.

An allocation of RM918 million for the housing sub-sector will be utilised to build affordable homes for the poor and low-income group as well as Government quarters for civil servants, including the armed forces and police. A total of 14,910 units of Program Perumahan Rakyat (PPR) Disewa and 522 units of PPR Dimiliki are under construction by Jabatan Perumahan Negara. New housing projects planned for 2011 under the RP1 include the construction of 1,250 units of PPR Disewa and 4,420 units of PPR Dimiliki. The monthly rental for PPR Disewa is RM124 while PPR Dimiliki are primarily meant for households earning less than RM2,500 per month. In view of the affordability of such homes, the implementation of the PPR will be accelerated while abandoned projects rehabilitated.

To date, the Ministry of Housing and Local Government has offered a total of 63,941 units of PPR Disewa for rent, and 3,030 units of PPR Dimiliki for sale. The take-up rate has been successful, with 81% of the PPR Disewa occupied and 96% of the PPR Dimiliki sold. In addition, about 44,100 units of low-cost houses have been offered for sale by Dewan Bandaraya Kuala Lumpur in line with the Government's policy of encouraging home ownership among the low-income group. Plantation workers are also given the opportunity to own homes through the newly introduced Skim Pembiayaan Kos Rendah with an allocation of RM50 million, managed by Bank Simpanan Nasional. Under the scheme, plantation workers are eligible for housing loans up to a maximum of RM60,000, with a maximum repayment period of 40 years at 4% interest rate.

The health sub-sector is the second largest recipient in the social services sector with an allocation of RM2.2 billion or 4.5% (2010: RM3.8 billion; 7.2%) of total development expenditure. The expenditure is for land acquisition; building, upgrading and maintenance of hospitals and health clinics; purchase of medical and health equipment; and enhancing hospital information and technology system; and skills training. Major ongoing projects include the construction, upgrading or expansion of hospitals in Kuala Lumpur, Taiping, Seremban, Kluang, Tampin, Kangar, Kuala Terengganu, Kota Bharu, Tampoi, Rompin and the Sabah Medical Centre. Other projects include the construction of nursing colleges, hostels and quarters for medical staff. To ensure better access to quality healthcare in urban areas, 50 1Malaysia Clinics will be opened under the RP1. Of this, 27 1Malaysia Clinics have commenced operations as of end-April 2011, bringing the total to 80 1Malaysia Clinics established since January 2010. To date, the Clinics have served more than 2.3 million patients. Under RP1, preliminary works on several new hospital projects in Lawas and Petra Jaya (Sarawak) as well as Tuaran (Sabah) and Kuala Krai (Kelantan) are underway. Substantial allocation is also provided to strengthen rural healthcare, including construction of health and dental clinics as well as upgrade rural health facilities nationwide.

Under the social services sector, allocation is also provided to upgrade and enhance facilities and services at the local level (RM1.2 billion), community and rural development (RM727 million) as well as welfare services (RM129 million). Expenditure is mainly for solid waste management, fire-fighting services, welfare services for the elderly and poor, upgrading and building of parks and recreational facilities as well as rehabilitating rivers and flood mitigation projects. To improve the lives of the rural poor, priority will be given to village rehabilitation schemes and programmes that promote education, skills training and income-generating activities. In addition, 1Azam Niaga and 1Azam Khidmat projects (RM60 million) will continue to be implemented. The programmes are designed to promote small businesses, entrepreneurship and skills development among the poor.

Real incomes of the hardcore poor in less developed and remote areas will continue to be improved through Skim Program Lonjakan Mega (RM100 million) in Sarawak (Batang Sadung, Batang Lupar, Pulau Bruit), Sabah (Pulau Banggi), Kedah (Sik) and Pahang (Tanjung Gahai, Chemomoi). A new agropolitan project will be implemented in Gana (Sabah) with an allocation of RM50 million. Provision is also made to ensure the orang asli continue to reap the benefits of development through better access to public and social amenities (RM3 million). Land rights and border settlement issues will be addressed comprehensively while Jabatan Hal Ehwal Orang Asli was restructured and strengthened to be more effective. A sum of RM166 million is also given to the culture, youth and sports sub-sector for projects related to the Textile Museum, National Archives, National Visual Art Gallery and other arts and craft programmes as well as upgrading youth, sports and other recreational facilities.

Development expenditure for the **security sector** is estimated at RM4.4 billion or 8.9% of total development expenditure (2010: RM4 billion; 7.5%). The allocation will be utilised mainly for building and refurbishment of facilities, purchase and upgrading of equipment as well as surveillance and capacity building for the armed forces (RM3.5 billion). To enhance public safety and foster a safe business environment, the internal security sub-sector is given RM867 million. Provision will be made to strengthen civil defence, purchase and upgrade of equipment, improve capacity and capability of uniformed personnel as well as enhancing maritime surveillance and enforcement. Allocation is also provided to improve service delivery in the Immigration Department, National Registration Department and Prisons Department in all states. In addition, RM183 million is provided to combat street crime under the NKRA to reduce crime. Programmes adopted to promote safe townships include the revamped Rakan Cop, the community-based Voluntary Patrol Scheme in high risk areas as well as the Safe City Monitoring System which uses geographical information system (GIS) mapping to monitor crime and deploy manpower more efficiently.

General administration will be allocated RM957 million (2010: RM1.9 billion) to further enhance productivity and quality of the public sector delivery system. Concerted efforts will be made to ensure the civil service remains lean, efficient, and facilitative to support private sector activity as well as address the concerns of the rakyat. Work processes and duplicating functions of Government agencies will be streamlined, and the governance structure enhanced for greater clarity, effective execution and compliance. The Strategic Reform Initiative (SRI) on public service delivery also calls for a high performing civil service to boost the nation's competitiveness through creative human resource practices, including an integrated but flatter organisation. Towards this, priority will be on enhancing skills and competence of civil servants as well as reinforcing meritocracy in the service. Allocation is also provided for various ICT projects and upgrading computer systems in Government departments. The development of new and wider usage of e-Government applications as well as new forms of media in service delivery will be enhanced. Provision is given for land acquisition, buildings and fittings as well as for renovation, refurbishment and maintenance of Government facilities. The maintenance culture in the public sector will be strengthened to foster prudent use of assets as well as provide quality service to the public.

Financing

Reliance on domestic funding

Federal Government gross borrowings are projected to increase significantly in 2011 mainly on account of higher redemptions, loan repayments and deficit financing requirements. Given the ample liquidity in the financial system, the Government will continue to source its borrowings from domestic sources. The increased funding requirements are not expected to crowd out the private sector due to a high savings rate. With revenue exceeding operating expenditure, borrowings are mainly to finance development expenditure.

Total gross borrowings for the year are expected to amount to RM96.6 billion. Of this, RM90.2 billion or 93.3% constitutes domestic borrowing while RM6.4 billion is from external sources. Of the gross borrowings, RM51 billion is for repayments of existing debt while the balance, RM45.6 billion will be used to finance the deficit.

TABLE 4.5

Federal Government Financing 2010 – 2011

	RM million		Share (%)	
	2010	2011[1]	2010	2011[1]
Gross borrowings	**64,994**	**96,639**	***100.0***	***100.0***
Domestic	**60,499**	**90,200**	***93.1***	***93.3***
Investment issues	23,399	36,000	*36.0*	*37.3*
Government securities	37,100	54,200	*57.1*	*56.1*
External	**4,495**	**6,439**	***6.9***	***6.7***
Market loans	4,047	5,961	*6.2*	*6.2*
Project loans	448	479	*0.7*	*0.5*
Repayments	**24,874**	**50,995**	***100.0***	***100.0***
Domestic	24,043	45,089	*96.7*	*88.4*
External	831	5,906	*3.3*	*11.6*
Net Borrowings	**40,120**	**45,644**		
Domestic	36,456	45,111		
External	3,664	533		
Change in assets[2]	**3,155**	**-133**		
Total	**43,275**	**45,511**		

[1] Estimate.

[2] (+) indicates a drawdown of assets.

Note: Total may not add up due to rounding.

In 2011, RM54.2 billion or 60.1% of total domestic borrowings will be raised through the issuance of Malaysian Government Securities (MGS) while the balance RM36 billion, through Government Investment Issues (GIIs). Of the total issuance of MGS, RM24.5 billion will be raised through a series of five new issues, of which RM16.5 billion will be through open tender while RM8 billion, through private placement. Meanwhile, the remaining RM29.7 billion will be raised through the re-opening of a series of eight existing MGS, including RM2 billion through private placement. To minimise bunching of MGS redemptions which have cash flow implications for the Government, three new issues as well as three re-openings are longer-dated debt papers with a tenure of 10, 15 and 20 years. The move towards longer-dated papers is also to meet industry demands for good sovereign debt papers. The coupon rates for new issues of MGS with tenure of between 10 and 20 years ranged between 4.16% – 4.39% during the first eight months of 2011.

The Government is also expected to raise GIIs amounting to RM36 billion comprising a series of three new issues totalling RM15.5 billion. Of this, RM11 billion will be raised through open tender while RM4.5 billion, through private placement. The remaining RM20.5 billion constitutes re-opening a series of five issues including RM2.5 billion through private placement. While the Islamic debt market has a marked preference for shorter-dated GIIs, two issues in 2011 have a maturity of 10 years which will contribute to the development of a benchmark yield curve for Islamic debt papers.

As at end-June 2011, the major holders of MGS and GIIs were the Employees Provident Fund (EPF) (33.4%), foreign investors (25%), banking institutions (19.7%), and insurance companies (6.5%). The search for higher yields and safe haven debt instruments in the midst of excess liquidity in the global financial system, coupled with a volatile environment has seen foreign holdings of MGS and GIIs rise from 11.4% as at end-December 2008 to 25% as at end-June 2011, reflecting confidence in the sound macroeconomic fundamentals and growth prospects of the Malaysian economy. The regular issuance of Government securities is imperative for the further development of a deep and liquid domestic capital market.

Gross international borrowings are expected to increase to RM6.4 billion following the issuance of the USD2 billion dual-tranche Wakala Global Sukuk in June 2011. The USD1.2 billion five-year tranche was priced at 2.991% while the USD800 million 10-year benchmark tranche, at 4.646%. During the year, a total of RM479 million is expected to be drawn down

Highlights of Malaysia's USD2 Billion Dual-Tranche Wakala Global Sukuk

Type of Offering:

- A five-year global sukuk amounting to USD1.2 billion due 6 July 2016.
- A 10-year benchmark global sukuk worth USD800 million due 6 July 2021.

The sukuk, the first to be offered under the Wakala structure, was issued through a special-purpose vehicle, Wakala Global Sukuk Berhad and listed on Hong Kong Stock Exchange, Bursa Malaysia and Labuan International Financial Exchange. It was Malaysia's third US dollar-denominated sukuk issuance, having previously issued a USD1.25 billion and a USD600 million five-year sukuk Ijara in 2010 and 2002, respectively.

Structure

The innovative sukuk was based on the shariah principle of Wakala comprising:

- A tangible asset component of lease assets (28%) and shariah-compliant shares (24%);
- A Murabaha receivable component (48%) of shariah-compliant commodities.

The underlying assets pledged included several Institut Tadbiran Awam Negara (INTAN) campuses and schools in Kuala Lumpur and Petaling Jaya while the shares were equity holdings in IJN Holdings Sdn Bhd and Technology Park Malaysia Corporation Sdn Bhd.

Rating

The global sukuk was assigned a credit rating of A3 (stable) by Moody's and A- (stable) by Standard & Poor's.

Objective of Raising Global Sukuk

- To leverage on the low cost of USD denominated debt
- To meet pent-up demand for high quality shariah-compliant products
- To be in the forefront of the Islamic debt market, and
- Provide leadership in innovative Islamic financial products

Modus Operandi

A global investor roadshow was undertaken by two teams covering major global financial centres. The first team covered Kuala Lumpur, Hong Kong and Singapore while the second team met potential investors in Dubai, Abu Dhabi, Riyadh and London. The sessions with the Islamic and conventional investors included group meetings, one-to-one sessions as well as teleconferences involving 128 investors with key regional and international accounts. The teams converged in New York on 27 June for another round of sessions with potential investors. The final pricing was on 28 June 2011 while the settlement date was on 6 July 2011.

Distribution and Profile of Investors

The deal was oversubscribed 4.5 times, attracting a final order book of USD5 billion and USD4 billion for the 5 and 10-year sukuk, respectively. This was a tremendous achievement given the market volatility due to the European debt crisis as well as a sluggish primary market. The USD1.2 billion five-year sukuk was priced at 2.991% while the coupon rate for the benchmark USD800 million 10-year sukuk was 4.646%. The final allocation was well spread out to over 320 investors, with Middle East investors buying 43% of the five-year tranche while European and US investors snapped up 36% of the longer dated paper. Malaysian investors were equally enthusiastic, taking up 26% and 28% of the 5 and 10-year sukuk, respectively. Investor profile was, however, markedly different for the dual-tranche sukuk. Banks (57%) preferred the shorter tenure debt paper, followed by Government institutions (24%), fund managers (17%) and insurance companies (2%). In contrast, fund managers (45%) responded favourably to the 10-year sukuk followed by banks (28%), government institutions (19%) and insurance companies (8%).

Achievements

The issuance of the dual-tranche Wakala Global Sukuk saw Malaysia achieving several ‘firsts’ as follows:

- First global sovereign US dollar sukuk for 2011;
- First global sovereign US dollar sukuk structured under Wakala principle;
- Largest dual-tranche US dollar global sovereign sukuk;
- First 10-year US dollar sovereign sukuk, a benchmark in the Islamic capital market;
- Largest issuance to date by Malaysia in the international US dollar market;
- Lowest yield achieved by an Asian sovereign for a five-year tranche.

Malaysia’s successful sukuk issuance in the international Islamic debt market under the most challenging circumstances reflected confidence in its credit standing and macroeconomic fundamentals as well as demand for high quality sovereign debt papers and safe haven financial instruments. The Wakala structure, which was based on a diverse pool of assets, also found ready acceptance among the more conservative Middle East investors, thereby further strengthening Malaysia’s leadership in Islamic finance in Asia.

from bilateral sources (RM400 million) and multilateral sources (RM79 million) to finance ongoing projects and programmes related to higher education, research and training as well as water supply.

Debt

Government debt sustainable

The Federal Government will ensure that debt level remains sustainable through the adoption of sound macroeconomic policies and prudent debt management strategies. As at end-June 2011, national debt continued to remain low at 28.5% of GDP (2010: 29.6%) while Federal Government debt is projected to be marginally higher at 53.8% of GDP (2010: 53.1%).

In 2011, total Federal Government debt is expected to increase 11.9% to RM455.7 billion (2010: 12.3%; RM407.1 billion) mainly due to higher borrowings to meet financing requirements. Of the total, domestic debt accounts for 96.2% or RM438.5 billion (2010: 95.9%; RM390.4 billion). Similarly, Federal Government external debt, which is mainly denominated in US dollars and yen, is projected to increase 3.2% to RM17.3 billion (2010: 21.5%; RM16.7 billion) following the successful issuance of the USD2 billion dual-tranche Wakala Global Sukuk. Federal Government external debt, however, continues to remain low and manageable at 3.8% of total debt (2010: 4.1%).

Though the debt level has been trending upwards in recent years, debt servicing capacity remains affordable and within prudent

TABLE 4.6

Federal Government Debt
2010 – 2011

	RM million		Share (%)		GDP (%)	
	2010	2011[1]	2010	2011[1]	2010	2011[1]
Domestic debt	**390,356**	**438,467**	***95.9***	***96.2***	***51.0***	***51.7***
Treasury Bills	4,320	4,320	*1.1*	*0.9*	*0.6*	*0.5*
Investment Issues[2]	88,643	117,034	*21.8*	*25.7*	*11.6*	*13.8*
Government Securities	260,993	277,713	*64.1*	*60.9*	*34.1*	*32.8*
Housing Loan Fund	36,400	39,400	*8.9*	*8.6*	*4.8*	*4.6*
External debt	**16,745**	**17,278**	***4.1***	***3.8***	***2.2***	***2.0***
Market loans	9,355	10,100	*2.3*	*2.2*	*1.2*	*1.2*
Project loans	7,390	7,177	*1.8*	*1.6*	*1.0*	*0.8*
Total	**407,101**	**455,745**	***100.0***	***100.0***	***53.1***	***53.8***

[1] Estimate.
[2] Includes Shariah-based savings bond issued in 2009 and 1Malaysia retail Sukuk issued in 2010.

Note: Total may not add up due to rounding.

limits. The Government will ensure that debt service charges at 10.1% of revenue (2010: 9.8%) will remain manageable and not impinge on productive spending programmes. As part of fiscal rules rigorously observed, Federal Government debt will not exceed 55% of GDP while debt service charges, maintained below 15% of revenue to ensure debt sustainability.

National debt, comprising the external debt of the Federal Government, Non-Financial Public Enterprises (NFPEs) and private sector increased to RM241.7 billion as at end-June 2011 (end 2010: RM227.1 billion) largely due to net borrowings in short-term as well as medium and long-term debt by the private sector. The debt was mainly denominated in USD (66.1%), yen (7.8%), Euro (4%) and others (22.1%).

Accounting for 61.9% of national debt, medium and long-term debt increased marginally to RM149.5 billion as at end-June 2011 (end 2010: 65%; RM147.7 billion). This was largely reflected in higher borrowings by the bank and non-bank private sectors, particularly companies in the E&E, plantation and construction industries. The debt of the private sector increased to RM72 billion in the first half of the year (end-2010: RM64.3 billion).

In contrast, the external debt of NFPEs moderated to RM61.4 billion (end-2010: RM66.6 billion) on account of net repayments by companies, particularly in the utilities, finance, insurance and transport sub-sectors during the period. The Federal Government external debt, however, remained stable at RM16.2 billion (end-2010: RM16.7 billion). The NFPEs, private sector and Federal Government accounted for 41%, 48.1% and 10.8%, respectively of the medium and long-term debt.

Short-term external debt increased markedly by 16% to RM92.2 billion (end 2010: 2.7%; RM79.4 billion) largely on account of higher inter-bank borrowings. Likewise, the non-bank private sector recorded a marginal increase in debt to RM10.8 billion (end 2010: RM9.6 billion) reflecting net borrowings by companies in the E&E, finance and distributive trade sub-sectors. The debt of the NFPEs, however, declined sharply to RM306 million (end-2010: RM1.9 billion) due to divestment activities.

TABLE 4.7

National Debt
2010 – 2011

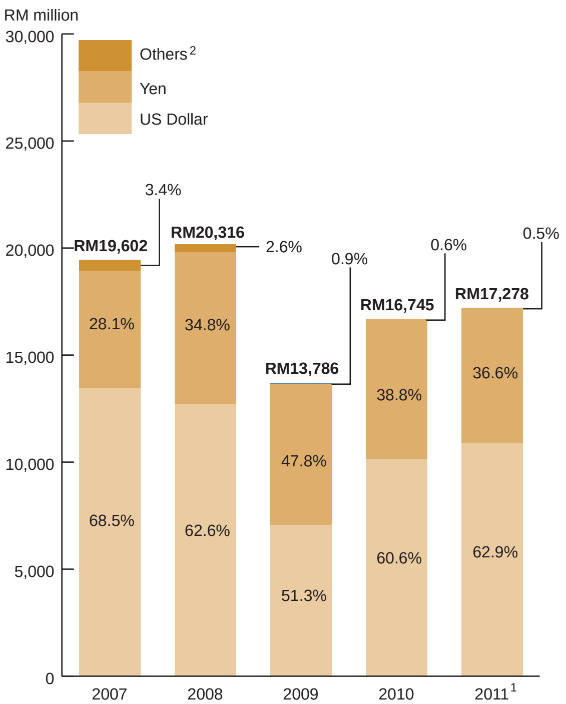
	RM million		Share (%)		GDP (%)	
	2010	2011[1]	2010	2011[1]	2010	2011[1]
Medium-and long-term debt	**147,661**	**149,499**	***65.0***	***61.9***	***19.3***	***17.6***
Public sector	83,334	77,533	*36.7*	*32.1*	*10.9*	*9.2*
Federal Government	16,745	16,166	*7.4*	*6.7*	*2.2*	*1.9*
NFPEs	66,589	61,367	*29.3*	*25.4*	*8.7*	*7.2*
Guaranteed	11,824	11,157	*5.2*	*4.6*	*1.5*	*1.3*
Non-guaranteed	54,765	50,210	*24.1*	*20.8*	*7.1*	*5.9*
Private sector	64,327	71,966	*28.3*	*29.8*	*8.4*	*8.5*
Short-term debt	**79,447**	**92,191**	***35.0***	***38.1***	***10.4***	***10.9***
Total	**227,108**	**241,689**	***100.0***	***100.0***	***29.6***	***28.5***

[1] End-June 2011.

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 and euro.
Note: Figures in bar chart denote % share.
Source: Ministry of Finance, Malaysia.

The banking sector remained the major holder of short-term debt at RM81.1 billion or 88% of the total (end-2010: RM68 billion; 85.6%). The non-bank private sector and NFPEs held RM10.8 billion and RM306 million (end-2010: RM9.6 billion and RM1.9 billion), respectively of the debt. As at end-June 2011, the external debt service ratio was 9.2%, reflecting the sustainability of exports earnings to service debt obligations while international reserves at RM406.3 billion were sufficient to cover 4.5 times the short-term debt.

State Governments

Narrow overall surplus

Amid moderating growth, state governments are expected to incur higher expenditure to sustain the growth momentum and bridge the rural-urban divide as well as attract more investment to spur economic growth. The consolidated financial position of state governments is projected to record a lower current surplus of RM9.4 billion in 2011 (2010: RM12.4 billion) on account of higher operating expenditure and a marked decline in revenue. Despite higher development expenditure, the overall financial position of state governments is expected to remain positive, registering a smaller surplus of RM1.6 billion (2010: RM6.1 billion).

Total revenue of the states comprises both direct and indirect taxes (17.2%), non-tax revenue (46.7%) as well as non-revenue receipts (36.1%), which are mainly grants and reimbursements from the Federal Government. Total revenue is anticipated to contract 11.7% to RM18.9 billion (2010: 40.2%; RM21.4 billion) mainly due to a decline in returns on investments and land premiums. Proceeds from royalties are, however, set to increase 25.9% on account of favourable crude oil prices. Likewise, contributions from land-based taxes such as receipts from quit rent are expected to increase 12.6% to RM1.8 billion (2010: 8.5%; RM1.6 billion). Sabah and Sarawak will also realise additional revenue in the form of sales tax on CPO amounting to RM1.1 billion. Grants and reimbursements from the Federal Government are expected to amount to RM2.2 billion (2010: RM3.7 billion) mainly for financing infrastructure and social projects as well as public facilities and amenities. Royalties from petroleum and forestry as well as receipts from investment income, land-based taxes and land premiums are major sources of state revenue, accounting for 47.4% of total revenue (2010: 45.8%). Other sources of revenue include fees from licences and permits, rentals, receipts from the provision of goods and services as well as fines and penalties.

TABLE 4.8

Consolidated State Governments Financial Position 2010 – 2011

	RM million		Change (%)	
	2010	2011[1]	2010	2011[1]
Current Account				
Revenue	21,362	18,864	*40.2*	*-11.7*
Operating expenditure	8,947	9,513	*11.2*	*6.3*
Current account balance	12,415	9,351		
Development account				
Gross development expenditure	6,834	7,978	*-1.2*	*16.7*
Development fund	6,581	7,748	*0.5*	*17.7*
Water supply fund	253	230	*-30.4*	*-8.9*
Less: Loan recovery	484	233		
Net development expenditure	6,350	7,746	*-4.1*	*22.0*
Overall balance	**6,065**	**1,605**		
% of GDP	***0.8***	***0.2***		

[1] Revised estimate.

Note: Total may not add up due to rounding.

Total expenditure is projected to be higher by 10.8% to RM17.5 billion (2010: 5.5%; RM15.8 billion). Operating expenditure, comprising 54.4% of total expenditure is anticipated to increase 6.3% to RM9.5 billion (2010: 56.7%; 11.2%; RM8.9 billion) while development expenditure to increase significantly by 16.7% to RM8 billion (2010: -1.2%; RM6.8 billion). Emoluments, supplies and services as well as purchase of assets constitute the largest component of operating expenditure at 67.8% (2010: 69.5%). Development expenditure will be utilised for agriculture and rural development, public amenities, transport, housing and water supply projects as well as drainage and irrigation. Priority will be given to building new as well as upgrading physical infrastructure to boost commercial and industrial activities in the states.

General Government

Higher deficit

The fiscal position of the general government comprising the consolidated accounts of the Federal Government, state governments, local authorities and statutory bodies is expected to register a higher deficit at 5.5% of GDP in 2011 (2010: -4.3%). This is on account of anticipated higher overall expenditure commitments which more than offset an increase in revenue.

TABLE 4.9

Consolidated General Government Financial Position 2010 – 2012

	RM million			Change (%)		
	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]
Current account						
Revenue	189,838	210,395	213,526	*3.1*	*10.8*	*1.5*
Operating expenditure	167,653	196,326	196,872	*-2.0*	*17.1*	*0.3*
Current account balance	**22,185**	**14,069**	**16,655**			
Development expenditure	55,415	60,990	60,014	*-2.5*	*10.1*	*-1.6*
Overall balance	**-33,230**	**-46,921**	**-43,360**			
% of GDP	***-4.3***	***-5.5***	***-4.7***			

[1] Revised estimate.
[2] Budget estimate, excluding 2012 tax measures.

Note: Total may not add up due to rounding.

Meanwhile, the Federal Government allocated RM13.4 billion (2010: RM12.4 billion) and RM5.5 billion (2010: RM4.7 billion) to statutory bodies and state governments in the form of grants and transfers through its operating expenditure.

Non-Financial Public Enterprises

Higher development spending

The consolidated financial position of NFPEs is projected to register a deficit of RM44.6 billion in 2011 (2010: RM17.4 billion) in tandem with an uncertain, yet challenging and competitive operating environment. The overall deficit is attributable to higher commitments in capital expenditure and an anticipated decline in consolidated revenue despite gains from lower operating costs.

The consolidated revenue of NFPEs is expected to contract 16.5% to RM307.4 billion in 2011 (2010: 13.9%; RM368.2 billion) despite higher commodity prices, sales of electricity and vehicles, strong growth in telecommunications and construction activities as well as increased returns from overseas operations and investment. Continued expansion in passenger and trade related activities as well as the upward revision in energy tariffs are expected to have a positive impact on revenues. The lower consolidated revenues are largely due to the change in PETRONAS financial year, from 1 April to 31 March to the January–December calendar year beginning 2012. Hence, financial data for 2011, being the transition year, refers to a nine-month period from April 2011 to December 2011. Despite the financial year adjustment, PETRONAS remains the largest contributor to the consolidated revenue followed by Tenaga Nasional Berhad (TNB), Axiata Group Berhad (Axiata), Malaysia Airlines System Berhad (MAS), UEM Group Berhad (UEM), Proton Holdings Berhad and Telekom Malaysia Berhad (TM). Similarly, the consolidated current expenditure is also anticipated to decline 8.8% to RM274.8 billion (2010: 9.5%; RM301.4 billion) on account of reduced import bills and lower debt servicing charges due to the strong ringgit as well as improved operational efficiency arising from continuous efforts to cut costs and streamline operations. With the decline in consolidated revenue

TABLE 4.10

Consolidated NFPEs Financial Position[1] 2010 – 2011

	RM million		Change (%)	
	2010	2011[2]	2010	2011[2]
Revenue	368,208	307,440	*13.9*	*-16.5*
Current expenditure	301,429	274,774	*9.5*	*-8.8*
Current surplus	**66,779**	**32,666**		
Development expenditure	49,342	77,251	*-11.4*	*56.6*
Overall balance	**17,437**	**-44,585**		
% of GDP	***2.3***	***-5.3***		

[1] Refers to 30 major NFPEs.
[2] Revised estimates.

Note: Total may not add up due to rounding.

envisaged to be higher than lower operating costs achieved, the NFPEs will record a lower current surplus of RM32.7 billion (2010: RM66.8 billion).

Driven by the need to strengthen future earnings, leverage on investment opportunities as well as generate stronger shareholder value, capital expenditure of NFPEs is slated to accelerate markedly by 56.6% to RM77.3 billion (2010: -11.4%; RM49.3 billion). Investments, both at home and abroad, are mainly for capacity expansion, upgrading and refurbishment of existing facilities, product and service delivery as well as undertaking new investment across major sectors. The bulk of capital expenditure is expected to be channelled into the oil and gas industry, telecommunications, power generation, transmission and distribution, public transport, plantation, township and infrastructure development such as airport facilities, housing, roads and bridges. Domestic investments, accounting for 61.3% or RM46.1 billion of the total (2010: 67.1%; RM35.9 billion) will include ventures such as exploration and development of oil and gas fields; rejuvenating marginal oil fields; expanding coverage of HSBB network; upgrading telecommunication data infrastructure; extension of Kelana Jaya and Ampang LRT lines; purchase of rolling stock as well as real estate development in Iskandar Malaysia.

Despite a challenging operating environment amid global uncertainties, NFPEs are expected to be resilient, competitive and continue to perform well, strengthened by the ongoing transformation programme of GLCs. NFPEs play a significant role in the economy through their involvement in capital formation, job creation, skills development and corporate social responsibility (CSR) activities in education, health, sports, environment and other charitable deeds. NFPEs also facilitate investments related to national security and development of niche growth areas vital for technological advancement as well as those requiring heavy capital outlay and long gestation period. In tandem with the call for greater value creation and liquidity in the capital market as well as investment opportunities for the private sector, NFPEs will continue to pare down their stakes in non-core and non-competitive assets without compromising on maximising returns.

Consolidated Public Sector

Higher development spending

The financial position of the consolidated public sector comprises the accounts of the general government and the NFPEs after netting out transfers and net lending. In 2011, the consolidated public sector is expected to post a smaller current surplus of RM46.7 billion (2010: RM88.6 billion) mainly due to a marked decline of 37.9% in the current surplus of NFPEs. Coupled with a significant increase in development spending by the NFPEs, the consolidated public sector financial position is envisaged to record an overall deficit of RM91.5 billion or 10.8% of GDP (2010: -RM15.8 billion; -2.1%).

TABLE 4.11

Consolidated Public Sector Financial Position 2010 – 2012

	RM million			Change (%)		
	2010	2011[1]	2012[2]	2010	2011[1]	2012[2]
Revenue	131,341	162,889	161,164	*-1.2*	*24.0*	*-1.1*
Operating expenditure	167,180	193,501	196,291	*-2.0*	*15.7*	*1.4*
NFPEs current surplus	124,439	77,287	121,140			
Public sector current balance	**88,600**	**46,675**	**86,013**			
Development expenditure	104,410	138,209	161,513	*-6.9*	*32.4*	*16.9*
General government	55,068	60,958	59,942	*-2.5*	*10.7*	*-1.7*
NFPEs	49,342	77,251	101,571	*-11.4*	*56.6*	*31.5*
Overall balance	**-15,810**	**-91,535**	**-75,500**			
% of GDP	***-2.1***	***-10.8***	***-8.2***			

[1] Revised estimate.
[2] Budget estimate, excluding 2012 tax measures.

Note: Total may not add up due to rounding.

Prospects for 2012

Markedly lower deficit

Plagued by anaemic growth, persistently high unemployment and lingering sovereign debt issues, the economic outlook for advanced economies remains uncertain while emerging economies are expected to register steady growth. Supported by resilient domestic demand, reinforced by strong intra-regional trade, the Malaysian economy is envisaged to expand 5% – 6% in 2012.

Fiscal policy in 2012 will remain prudent and supportive of economic growth. Total Federal Government expenditure is expected to be stable at RM230.8 billion. In consonance with higher economic activity, better performance of NFPEs and other GLCs as well as improved tax collection, Federal Government revenue is expected to increase to RM186.9 billion, providing a strong impetus for the Government to further strengthen its fiscal position. Consequently, the Federal Government fiscal deficit is projected to significantly decline to 4.7% of GDP in 2012.

The 2012 Budget will reinforce efforts to boost the competitiveness of the economy through the timely realisation of reform initiatives while promoting inclusive and sustainable growth. Towards this, a substantial sum is allocated for programmes under the NKRAs (RM7.4 billion), NKEAs (RM4 billion) and SRIs (RM121.5 million) which are crucial to move the country to a higher income bracket. Amid a challenging external environment, coupled with inflationary pressures, there is added pressure on fiscal resources to ensure that the domestic economy remains resilient and generates higher growth. The 2012 Budget, will therefore, implement projects and programmes that will boldly tackle the rising cost of living, continue to promote the well-being of the rakyat, stimulate economic growth in rural areas as well as accelerate private investment. Innovation will be promoted as an intrinsic part of Malaysian culture while investment in quality human resource development, further strengthened. The civil service will be re-energised and made lean, flexible and more responsive through comprehensive reforms currently underway. The measures to be implemented will enhance its role as an enabler to a private sector-led economy.

Operating expenditure is expected to remain stable, growing at a slower pace of 0.7% to RM181.6 billion consistent with efforts to ensure fiscal targets for 2012 are met. Of this, allocation for reform initiatives under the NKRAs (RM963 million), NKEAs (RM563.8 million) and SRIs (RM80 million) will amount to RM1.6 billion. **Emoluments** will be provided a significantly higher sum of RM52 billion on account of the improved remuneration scheme under the new civil service reform effective 1 January 2012. The capacity of the civil service will be strengthened to meet evolving challenges in an increasingly sophisticated working environment. Provision for **debt service charges** *(*RM20.5 billion), ***supplies* and services** (RM30.5 billion) and **grants to statutory bodies** (RM14.5 billion) will be increased in line with rising commitments.

Payments for **subsidies** comprising various subsidies (RM22.5 billion), incentives (RM854 million) and social assistance programmes (RM9.8 billion) are expected to remain stable at RM33.2 billion. Fuel subsidies will, however, be allocated a higher sum of RM17 billion or 9.4% of operating expenditure in anticipation of firm crude oil prices. Likewise, **grants and transfers to state governments** are expected to remain firm at RM5.8 billion. In contrast, **asset acquisition** (RM1.1 billion) will, however, be given reduced allocation in line with efforts to streamline discretionary expenditure without compromising productivity or the quality of service provided.

Development expenditure will be allocated a marginally lower sum of RM49.2 billion or 21.3% of total expenditure. The provision includes funding for the rollout of projects and programmes under the second rolling plan (RP2) as well as transformation initiatives under the NKRAs (RM6.4 billion), NKEAs (RM3.5 billion) and SRIs (RM41.5 million). A sum of RM662 million is also set aside, among others, to settle final payments for the 9MP projects.

In tandem with priorities in the 2012 Budget, the NKRAs on rural basic infrastructure (RM5.1 billion) and urban public transport (RM1 billion) will account for 95.4% of total NKRA allocation for 2012. Major growth areas identified under the NKEAs include Greater KL (Klang Valley) (RM1.5 billion), agriculture (RM552.8 million), palm oil (RM472.3 million), education (RM233 million), E&E (RM208 million) as well as oil, gas and energy (RM205.4 million). As for the SRIs, allocation is provided for programmes related to human capital development (RM17.9 million), public finance (RM12.5 million), international standards and liberalisation (RM5.6 million) as well as public service delivery (RM5.5 million). SRIs are essentially the underlying cross-cutting policy measures which must be implemented in a consistent and holistic manner to enable Malaysia move out of the middle-income trap.

Allocation for the **economic services** sector (RM29.8 billion) or 60.5% of total development expenditure in 2012 is mainly for transport and infrastructure development (RM10 billion), upgrading and improving access to public utilities (RM5.8 billion), building capacity in trade and industry (RM5.1 billion) as well as boosting agriculture productivity and accelerating rural development (RM1.9 billion).

The 2012 Budget reinforces the importance of enhancing the long-term growth potential of the economy, among others, through infrastructure development and improving public transport. Towards this, a substantial sum is set aside to build, refurbish and upgrade rail facilities under KTMB. Major projects include the ongoing construction of three electrified double tracking projects and capacity expansion of KTM Komuter services. To ease congestion on Komuter services, 38 sets of six-car Electric Multiple Units (EMUs) will be delivered in stages between September 2011 and June 2012. Of this, four sets of EMUs are expected to be operational by December 2011. Traffic into Kuala Lumpur will be dispersed with the construction of a second integrated transport terminal (ITT) in Gombak for east-bound buses. Allocation will also be given for construction, upgrading and maintenance of roads, bridges, ports, airports as well as implementation of the MRT project. Public transport services, facilities and connectivity will continue to be improved while the enforcement capacity and capability of relevant authorities strengthened. To improve accessibility and spur economic activities, RM6.9 billion will be given for construction of roads and bridges in rural and urban areas, including Sabah and Sarawak. Physical infrastructure in southern Johor will also be expedited to attract investment into Iskandar Malaysia.

The public utilities, energy and communication sub-sector is expected to expend RM6.4 billion for water supply, electricity and sewerage projects. Access to public amenities in rural areas, including Sabah and Sarawak will be given a boost through a substantial sum of RM3.1 billion. Business efficiency and productivity will be further enhanced with the ongoing implementation of the HSBB project which will be expanded to urban, high growth and industrial areas (RM397 million).

The trade and industry sub-sector will receive a substantial allocation of RM5.1 billion, given the need to strengthen domestic economic activity to drive growth amid the challenging external environment. Incentives will be given to attract quality domestic investment in capital intensive, high technology as well as creative and knowledge-based industries. Specific sectors have also been identified for Government support, including halal, green energy, biotechnology, advanced electronics, pharmaceuticals and medical devices as well as maintenance-repair and overhaul (MRO) engineering industries. Towards this, funds will be allocated to build capacity and capability in industry as well as promoting skills and entrepreneur development. Infrastructure facilities in industrial areas will be upgraded to facilitate investment. Likewise, access to funds for the acquisition and commercialisation of technology as well as R&D in promoted sectors will be made available.

Allocation is also provided for development of halal parks and diversification of halal products. The halal logo and trademark will be strengthened to make it instantly recognisable as the benchmark global standard for Islamic products. SMEs will continue to be given comprehensive technical and financial assistance to be part of the global supply chain. The Government will also support several projects under the E&E NKEA (RM208 million). These include the relocating of niche mature technology wafer fabrication plants to Kedah, Pulau Pinang, Sarawak and Kuala Lumpur as well as upgrading public facilities to support the making of substrates and solar core components in the semiconductor and solar industries in Sarawak, Melaka, Kedah and Pulau Pinang. Other initiatives include strengthening test and certification laboratory facilities and services to support the light emitting diode (LED) industry and growing the local solid state lighting (SSL) champions in Pulau Pinang, Kedah and Melaka.

Development of the five growth corridors will be accelerated (RM670 million) with emphasis on provision of infrastructure and public amenities, improving drainage and irrigation, upgrading tourism-related facilities as well as agriculture infrastructure. While investment opportunities abound in corridor projects, the local community will benefit from jobs created and entrepreneurial skills nurtured from spillover businesses. In SCORE, the construction of access roads to Murum, Nanga Merit, Baram, Baleh, Tunoh, Limbang as well as the Samalaju Industrial Park and the New Mukah Airport will be expedited. The Northern Corridor Aquaculture Complex which involves the development of 500 white shrimp ponds and a processing plant in Selinsing (Perak) is expected to be operational in early 2012. Meanwhile, in the ECER, the Herbal Cultivation Park, which involves the cultivation of herbs and spices in Chegar Perah (Pahang) and Pasir Raja (Terengganu), is well underway.

In tandem with the increasing importance of the services sector to economic growth, the tourism sub-sector is allocated of RM363 million. Tourism-related facilities and amenities will be upgraded, eco-tourism strengthened and homestay programmes improved while efforts are intensified to diversify tourism products. Tourist arrivals, will be boosted through niche tourist products such as spa, art and sports tourism as well as hosting more international events to raise the profile of Malaysia. Provision is also made to revitalise Langkawi Island as a favoured tourist destination (RM111 million). About 26 million tourists are expected in 2012.

A sum of RM1.9 billion will be allocated to revitalise the agriculture and rural development sub-sector to increase productivity and generate higher returns as well as develop new sources of growth and investment. A broad-based and robust agriculture sector will boost the resilience of the domestic economy. Towards this, the agriculture NKEA (RM552.8 million) will spur investment in projects such as swiftlet farming, seaweed cultivation, integrated fish cage farming and high-value herbal products. Other projects promoted include strengthening productivity of padi farming in MADA and other granaries, dairy farming, cattle integration in oil palm as well as developing premium markets for fruits and vegetables. In addition, the integrated aquaculture industrial zones will be replicated to increase aquaculture output. The ongoing projects in Pulau Permatang Pauh (Pahang); Setiu (Terengganu); Selinsing (Perak); Desaru (Johor); Pitas and Tawau (Sabah) are expected to be completed in stages by 2016. Agriculture support services will be enhanced to ensure sustainability of projects and programmes implemented. Funds will also be provided for drainage and irrigation projects, particularly in Sabah and Sarawak, while poverty alleviation programmes will be improved and well targeted to ensure the benefits of growth and development are more equitably distributed. Projects to uplift the rural agriculture community will focus on promoting greater self-reliance and nurture entrepreneurship.

The **social services** sector is allocated RM13.6 billion with the education and training sub-sector receiving the largest allocation of RM8.5 billion. The substantial provision is to meet the demand for a skilled, knowledgeable, creative and innovative workforce as the country moves towards higher value-added growth. Of this, RM2.4 billion is for higher education, RM2.8 billion for primary and secondary education while RM1.2 billion is for industrial skills training programmes. In addition, pre-school education, especially in rural areas, will be expanded and strengthened to nurture a strong foundation (RM172 million).

Total student enrolment in primary and secondary schools is expected to reach 5.2 million in 2012. With the expected completion of 43 primary and secondary schools, about 7,600 temporary teachers will be recruited and provided appropriate training. A total of 90 new school projects, including 12 hostels will be undertaken while a sum of RM777 million will be set aside to refurbish and upgrade schools nationwide. Of this, RM534 million is for schools in rural areas in Sabah and Sarawak. Computer literacy and IT education will be further strengthened with an allocation of RM249 million.

Skills and industrial training in various disciplines will be constantly reviewed to meet industry needs, and further intensified to address concerns of a narrow skills base. Funds will be provided to operate, equip and upgrade facilities in polytechnics, industrial training institutes and community colleges. Completed ADTECs in Taiping, Bintulu, Jerantut, Shah Alam and Kemaman will be equipped.

Higher education is given the largest allocation in the sub-sector to further strengthen institutions of higher learning to meet the requirements for a knowledgeable and dynamic workforce with the right skills set. Towards this, various higher education projects and programmes will be implemented to improve quality and accessibility to tertiary education. Major ongoing projects include the upgrading and expansion of Universiti Malaya (UM), Universiti Kebangsaan Malaysia (UKM), Universiti Teknologi Malaysia (UTM) and Universiti Teknologi MARA (UiTM). Research activities will be actively pursued (RM484 million) to enhance innovation capacity while more lecturers, given the opportunity to pursue PhD programmes to improve quality of the teaching fraternity (RM432 million). The Government aims to drive excellence in the higher education sector, among others, through increasing the number of PhD holders to 60,000 by 2020.

Recognising that a healthy population is an invaluable asset to the country, the health sub-sector is given the second largest allocation of RM1.9 billion. The Government will ensure that access to quality and affordable healthcare in rural and urban areas remains a key priority. A sum of RM722 million will be used to upgrade hospitals, including Hospital Kuala Lumpur, Hospital Putrajaya, Hospital Queen Elizabeth (Sabah) and Hospital Kangar. In addition, an allocation of RM575 million is provided for the building of new hospitals and clinics. Another 23 1Malaysia Clinics will be operational in early 2012 to serve a wider population. The Government aims to operationalise 100 1Malaysia Clinics by 2012.

Service delivery as well as provision of infrastructure and facilities at the local level will be further enhanced through a substantial sum of RM1 billion. Allocation is provided for solid waste management (RM367 million), small income-generating projects (RM292 million) and fire fighting services (RM268 million) as well as welfare services for the elderly and poor. Community and rural development will be given a boost through a sum of RM646 million which will be utilised to improve the lives of the rural poor in a sustainable manner. Towards this, projects and programmes which impart living skills and promote economic activities will be expedited. Initiatives under the NKRA for improving the livelihood of low-income households (RM112 million) include improving public transport in rural areas, building hostels for school children as well as implementing 1Azam small business programmes. For the rural hardcore poor, various income-generating programmes such as agropolitan schemes under Program Lonjakan Mega Luar Bandar (RM110 million) will be expanded to improve real incomes. A sum of RM114 million is also provided to enable the orang asli engage in productive economic activities.

In consonance with the Government's policy of providing adequate and affordable housing for the low-income group, RM546 million is allocated for construction, rehabilitation and maintenance of PPR Dimiliki, PPR Disewa and PPR Bersepadu. An allocation of RM192 million is also set aside for building and refurbishment of quarters for civil servants. National security and public safety will be enhanced to foster a safe and healthy environment for Malaysians and investors to live, work and conduct business activities. The **security** sector will, therefore, be provided RM4.4 billion to enhance capacity and capability of uniformed personnel through the purchase and upgrading of equipment, improving surveillance and skills enhancement. Police presence and visibility in urban areas will also be increased in crime prone areas through an allocation of RM112 million under the NKRA to reduce crime.

Allocation for **general administration** will amount to RM1.4 billion for various ICT projects in Government departments (RM674 million), building, upgrading and maintenance of facilities such as quarters, judicial courts, district and land offices as well as other Federal Government buildings nationwide (RM459 million). Provision is also made for land acquisition and technical assistance projects. Productivity and service delivery will be continuously enhanced through wider use of ICT applications. Projects undertaken include computerisation of Government departments, further development of e-Government services, e-Tanah as well as managing portal services and ICT projects in various departments.

Federal Government **revenue** is projected to increase 1.9% to RM186.9 billion in tandem with better growth prospects for the domestic economy. Higher commodity prices, access to financing and firm corporate earnings as well as strong labour market conditions are expected to further strengthen private consumption and investment activity resulting in higher tax revenue (RM135.6 billion). All components of tax revenue, direct tax (RM102.1 billion) and indirect tax (RM33.5 billion) are expected to register a positive growth, reflecting stronger expansion of domestic economic activity across all sectors as well as gains from robust intra-regional trade. Receipts from PITA (RM26.2 billion) are anticipated to be firm, benefiting from steady regional demand for crude oil from countries such as Australia, India, Thailand, Philippines and Korea. Proceeds from non-tax revenue, comprising mainly investment income, licences, registration fees and permits as well as revenue from federal territories are, however, expected to be marginally lower at RM51.3 billion.

The Government is committed to improving its fiscal position as reflected in the lower deficit anticipated for 2012, while supportive of the growth momentum and reform initiatives. More importantly, strict adherence to fiscal dicipline as well as medium-term fiscal targets will ensure fiscal sustainability and macroeconomic stability. Deficit management will be driven through efficient and productive spending while revenue enhancement measures will be further strengthened.