4 Public Sector Finance

Public Sector Finance

Overview

Fiscal policy supports growth

The 2012 Budget was formulated amid moderating world growth, high unemployment, and protracted debt problems in the euro area as well as inflationary pressures due to rising commodity prices. As a globally well-integrated economy, Malaysia is not immune to developments in the external environment. The thrust of fiscal policy in 2012 is to boost the resilience of the domestic economy, generate growth and support reform initiatives while remaining fiscally responsible. Priority was given to accelerating public and private investment, expediting rural transformation programme, upscaling human capital development while continuing to enhance service delivery. Measures were also taken to promote the well-being of the rakyat amid rising inflation.

During the course of the year, new and additional commitments were accommodated supported by higher revenue collection. The spending, amounting to RM21.6 billion was mainly for fuel subsidies, the improved salary scheme and bonus payments for civil servants, pension payments, expenses for general election and cash transfers to target groups to mitigate the rising cost of living. Cost-cutting measures were also instituted without affecting the productivity and quality of service delivery. These included staff redeployment, greater inter-agency cooperation for effective service delivery and cutbacks in non-critical expenditure. In addition, project implementation is closely monitored to ensure timely implementation and contain cost over-runs.

Several measures have been implemented to ensure sustainability of public finances over the longer term. Under the Tenth Malaysia Plan (10MP) which spans from 2011 till 2015, a two-year rolling plan (RP) has been implemented to provide flexibility in expenditure management in tandem with fiscal resources and policy priorities. Value management is required for development projects above RM50 million while outcome-based budgeting will be introduced in phases beginning 2014 to improve efficiency and outcomes in spending. The Government is also studying the recommendations of a public expenditure review conducted to assess the efficiency and effectiveness of spending. Financial accountability and good governance in public finances have been institutionalised through key performance indicators (KPIs) for heads of departments while the recommendations of the Auditor-General, incorporated in rules and regulations. To better appreciate the net worth of the Government, accrual accounting is expected to be implemented from 2015, in parallel with the present cash-based accounting system. The Government's obligations which have long-term fiscal implications are also under review. These include Federal Government debt management; pension liabilities; administration of housing loan fund for civil servants and higher education student loan fund.

Given the sluggish global growth and weak external demand, especially from advanced economies, the Government has to strike a balance between supporting pro-growth policies to strengthen domestic economic activity and enhance competitiveness while ensuring fiscal prudence. Taking into account domestic imperatives, fiscal consolidation will therefore be well-paced. Despite higher financial commitments assumed during the year, the fiscal deficit of the Federal Government is expected to decline further from 4.8% of Gross Domestic Product (GDP) in 2011 to 4.5% in 2012. Given its significant role to support growth momentum amid a challenging environment, the public sector is expected to expand 13.3%, accounting for 25.2% of GDP (2011: 8.4%; 23.3%).

TABLE 4.1

Federal Government Financial Position
2011 – 2013

	RM million			Change (%)		
	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]
Revenue	185,419	207,246	208,650	*16.1*	*11.8*	*0.7*
Operating expenditure	182,594	202,617	201,917	*20.4*	*11.0*	*-0.3*
Current balance	**2,825**	**4,629**	**6,733**			
Gross development expenditure	46,416	49,822	47,750	*-12.1*	*7.3*	*-4.2*
Less: Loan recovery	1,082	2,895	1,024			
Net development expenditure	45,334	46,927	46,726	*-11.6*	*3.5*	*-0.4*
Overall balance	**-42,509**	**-42,297**	**-39,993**			
% of GDP	***-4.8***	***-4.5***	***-4.0***			

[1] Revised estimate.
[2] Budget estimate, excluding 2013 tax measures.

Note: Total may not add up due to rounding.

Federal Government

Fiscal consolidation continues

Total Federal Government expenditure will remain high at RM252.4 billion on account of new and increased commitments. Though affordable, as revenue collection is expected to be favourable at RM207.2 billion, the Government will be prudent and obtain value-for-money in its spending. Outcomes will be better targeted while departments held accountable for the quality of goods and services procured. In addition, the Government will ensure that debt obligations do not breach prudent limits.

Revenue

Favourable revenue collection

Federal Government revenue in 2012 is expected to register a strong growth of 11.8% to RM207.2 billion or 22.1% of GDP (2011: 16.1%; RM185.4 billion; 21%) amid sustained expansion in the domestic economy. The higher collection in both tax and non-tax revenue will be supported by firm crude oil prices, resilient domestic consumption and investment activity coupled with concerted administrative measures to enhance the revenue base. Tax revenue is projected to increase 13.1% to RM152.5 billion, contributing 73.6% to total revenue (2011: 23.2%; RM134.9 billion; 72.7%). As a percentage of GDP, tax revenue is expected to be higher at 16.3% in 2012. Boosted by favourable returns on investment income, non-tax revenue is expected to record a stronger growth of 8.3% to RM54.8 billion (2011: 0.8%; RM50.5 billion).

Direct tax, accounting for 56.4% of total revenue, is expected to be significantly higher at RM116.8 billion (2011: 55.1%; RM102.2 billion). This is mainly due to a double-digit growth in petroleum income tax (PITA) as well as corporate and individual income taxes. Supported by steady growth in domestic economic activity, revenue from corporate income tax is projected to increase 15.5% to RM54.1 billion (2011: 29.3%, RM46.9 billion). Individual income tax collection is anticipated at RM22.4 billion, an increase of 11.1% over 2011 as stable labour market conditions and income growth as well as the revision to the salary scheme of civil servants effective from 1 January 2012 are expected to impact positively on revenue collection. Likewise, boosted by an increase in production volume and firm crude oil price (Tapis), receipts from PITA will be markedly higher at RM32 billion. Tapis averaged USD120.53 per barrel in the first eight months of the year and is currently trading at USD119.04 per barrel as at 18 September 2012 (2011: USD118.54 per barrel). Other factors which are expected to contribute to the increase in PITA receipts include the change in Petroliam Nasional Berhad (PETRONAS) fiscal year to a calendar year from 2012 as well as the change in the tax treatment for assessing PITA from 1 January 2010.

Other direct taxes, including stamp duties (RM5.6 billion), withholding tax (RM1.8 billion) and cooperative income tax (RM323 million) are projected to be higher in tandem with resilient business transactions and other economic activities. Additional revenue of RM546 million is also expected from the upward revision of the real property gains tax (RPGT) rate effective from 1 January 2012 (2011: RM509 million).

The largest contributor to tax revenue is the oil and gas industry, followed by wholesale and retail trade, financial intermediaries and real estate, and the manufacturing sector. As at end-June 2012, the total number of registered taxpayers were 7 million, of which 6.4 million (92.5%) were individual taxpayers, 508,150 (7.3%) companies

TABLE 4.2

Federal Government Revenue 2011 – 2013

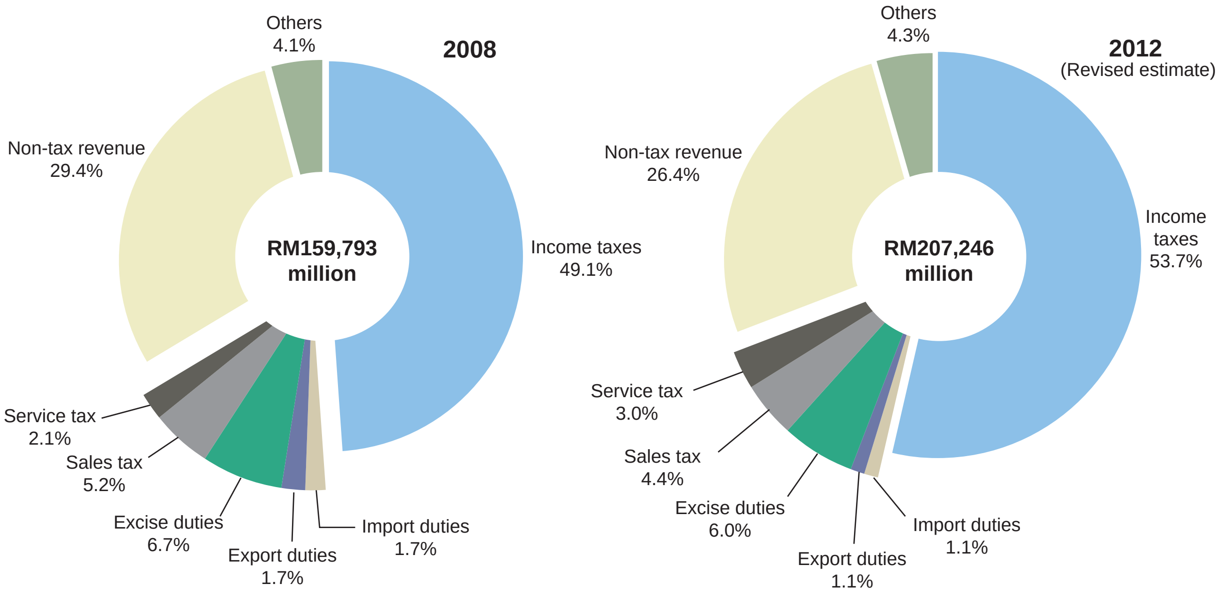
	RM million			Change (%)			Share (%)		
	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]
Tax revenue	**134,885**	**152,493**	**159,154**	***23.2***	***13.1***	***4.4***	***72.7***	***73.6***	***76.3***
Direct tax	102,242	116,825	121,953	*29.4*	*14.3*	*4.4*	*55.1*	*56.4*	*58.4*
of which:									
Companies	46,888	54,136	57,674	*29.3*	*15.5*	*6.5*	*25.3*	*26.1*	*27.6*
PITA [3]	27,748	31,962	30,507	*48.3*	*15.2*	*-4.6*	*15.0*	*15.4*	*14.6*
Individual	20,203	22,445	24,568	*13.5*	*11.1*	*9.5*	*10.9*	*10.8*	*11.8*
Indirect tax	32,643	35,668	37,200	*7.0*	*9.3*	*4.3*	*17.6*	*17.2*	*17.8*
of which:									
Excise duties	11,517	12,338	12,782	*-2.1*	*7.1*	*3.6*	*6.2*	*6.0*	*6.1*
Sales tax	8,577	9,185	9,645	*5.0*	*7.1*	*5.0*	*4.6*	*4.4*	*4.6*
Non-tax revenue	**50,534**	**54,753**	**49,496**	***0.8***	***8.3***	***-9.6***	***27.3***	***26.4***	***23.7***
of which:									
Licences and permits	11,190	11,820	11,370	*8.3*	*5.6*	*-3.8*	*6.0*	*5.7*	*5.4*
Investment income	34,005	36,967	31,274	*-1.6*	*8.7*	*-15.4*	*18.3*	*17.8*	*15.0*
Total revenue	**185,419**	**207,246**	**208,650**	***16.1***	***11.8***	***0.7***	***100.0***	***100.0***	***100.0***
% of GDP	***21.0***	***22.1***	***20.8***						

[1] Revised estimate.
[2] Budget estimate, excluding 2013 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.

while the rest included cooperatives, societies and various trust bodies. Of this, taxable returns comprised 1.8 million individuals and 107,043 companies. Since it was introduced in 2006, e-Filing has gained steady acceptance among taxpayers for its reliability, confidentiality and ease of usage. Faster tax refunds, minimal errors in calculation and the use of smartphones to file taxes (m-filing) have contributed to the increasing migration to e-Filing as well as attracting newer taxpayers into the tax net. As at 31 July 2012, more than 2.5 million or 73% of the submissions were through e-Filing, an increase of 20% over 2011. Similarly, e-payment of taxes has increased 20%, from 154,441 transactions in 2011 to 185,715 up to end-June 2012.

The Inland Revenue Board (IRB) continues to enhance tax compliance and revenue collection through productivity gains in tax administration, audits, enforcement and investigations. The IRB, in cooperation with the Royal Malaysian Customs Department (JKDM) and Bank Negara Malaysia (BNM), is part of a larger task force headed by the Attorney-General's Chambers that investigates tax evasion, under-declaration of customs duties, and money laundering. Opportunities to expand the tax base are also optimised through extensive use of information technology (IT), reducing regulatory burden, red tape and raising awareness through tax education. Focus will also be on improving tax management, service delivery and resource utilisation while constantly upgrading skills of its workforce.

Boosted by sustained domestic manufacturing and business activity as well as strong household spending, receipts from **indirect tax** are expected to increase 9.3% to RM35.7 billion, contributing 17.2% to total revenue (2011: 7%; RM32.6 billion; 17.6%). Receipts from excise duties on imported and locally manufactured goods, the largest component of indirect tax, are expected to rebound 7.1% to RM12.3 billion (2011: -2.1%; RM11.5 billion) supported by resilient demand for motor vehicles, including commercial vehicles, cigarettes and liquor. Demand for new models of motor vehicles is not expected to be dampened by the responsible lending guidelines issued by BNM in late 2011 on account of favourable labour market conditions and positive consumer sentiment.

Receipts from sales and service tax are expected to be higher at RM9.2 billion and RM6.2 billion, respectively (2011: RM8.6 billion; RM5 billion) on account of strong private consumption and business activity. Despite moderating commodity prices, consumption activity among smallholders is expected to remain firm, supported by cash transfers and vouchers distributed by the Government to assist low and middle-income groups, and school children. In addition, private consumption will also be spurred by the payment of RM15,000 to more than 112,600 Federal Land Development Authority (FELDA) settlers.

Revenue from export duties will remain stable at RM2.4 billion (2011: RM2.1 billion) as price of Tapis is expected to remain elevated. Petroleum is the largest component in export duties. Similarly, receipts from import duties will continue to remain stable at RM2.2 billion in line with Malaysia's progressive commitments on liberalisation of tariffs under regional and bilateral agreements. In contrast, levy collection on crude palm oil (CPO), goods vehicles and electricity are anticipated to decline 30.2% to RM642 million (2011: 108.9%; RM919 million) due to moderating CPO prices, the main component. The threshold price for the imposition of the levy is RM2,500 per tonne in Peninsular Malaysia and RM3,000 per tonne in Sabah and Sarawak. CPO prices averaged RM3,145 per tonne during the first eight months of the year. CPO is currently trading at RM2,666 per tonne as at 18 September 2012 (2011: RM3,274 per tonne).

Non-tax revenue, accounting for 26.4% of total revenue, is expected to increase 8.3% to RM54.8 billion (2011: 27.3%; 0.8%; RM50.5 billion). Investment income, the largest component of non-tax revenue, is anticipated to increase 8.7% to RM37 billion (2011: -1.6%; RM34 billion) in tandem with continued corporate profitability at home and abroad. Dividend from BNM remains stable at RM2 billion. Khazanah Nasional Berhad (Khazanah) is expected to contribute a dividend of RM3 billion, including a special dividend of RM2.5 billion from a strategic divestment exercise. To gradually reduce dependence on oil-related revenues, a lower dividend of RM28 billion was imputed for 2012 from PETRONAS (2011: RM30 billion). However, due to the fuel cost sharing mechanism between the Government, PETRONAS and Tenaga Nasional Berhad (TNB), dividend for 2012 will decline to RM26.3 billion.

Income from licences, registration fees and permits are estimated to increase 5.6% to RM11.8 billion, mainly contributed by petroleum royalties (RM5.6 billion) and road tax (RM2.2 billion). Other sources of non-tax revenue include proceeds from the production of oil and gas under the Malaysia-Thailand Joint Authority (MTJA) (RM1.5 billion) as well as fines and penalties amounting to RM1 billion (2011: RM1.4 billion; RM1.2 billion). Additional revenue for the year is anticipated from the monetisation of Government assets estimated at RM500 million. This is in line with Government's efforts to encourage greater private sector involvement in the economy, optimise the value of public assets through sale, lease or joint development as well as increase free float in Bursa Malaysia. Non-revenue receipts, which include refunds of expenditure and receipts from Government agencies, and revenue from the Federal Territories, are projected to be marginally higher at RM1.4 billion (2011: RM1.1 billion). Revenue from the Federal Territories includes premium and quit rent as well as income from various licences, registration fees, permits, rentals and service fees.

Expenditure

Higher operating expenditure

Due to the increased demand on fiscal resources during the year, Federal Government total expenditure is estimated at RM252.4 billion, an increase of 10.2% over 2011. Of this, RM202.6 billion or 80.3% is for operating expenditure while the balance, RM49.8 billion for development expenditure.

Operating expenditure is expected to increase 11% to RM202.6 billion in 2012 (2011: 20.4%; RM182.6 billion) in tandem with new and

TABLE 4.3

Federal Government Operating Expenditure by Object 2011 – 2013

	RM million			Change (%)			Share (%)		
	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]
Emoluments	50,148	59,197	58,621	*7.5*	*18.0*	*-1.0*	*27.5*	*29.2*	*29.0*
Debt service charges	17,716	20,453	22,245	*13.4*	*15.4*	*8.8*	*9.7*	*10.1*	*11.0*
Grants to state governments	5,535	5,846	6,276	*18.0*	*5.6*	*7.3*	*3.0*	*2.9*	*3.1*
Pensions and gratuities	13,565	14,188	13,597	*17.8*	*4.6*	*-4.2*	*7.4*	*7.0*	*6.7*
Supplies and services	28,949	31,960	33,659	*21.4*	*10.4*	*5.3*	*15.9*	*15.8*	*16.7*
Subsidies	36,256	42,404	37,612	*56.9*	*17.0*	*-11.3*	*19.9*	*20.9*	*18.6*
Grants to statutory bodies[3]	13,772	15,054	14,041	*11.0*	*9.3*	*-6.7*	*7.5*	*7.4*	*7.0*
Refunds and write-off	1,009	1,362	1,109	*67.8*	*35.0*	*-18.6*	*0.6*	*0.7*	*0.5*
Others	15,645	12,153	14,758	*18.6*	*-22.3*	*21.4*	*8.6*	*6.0*	*7.3*
Total	**182,594**	**202,617**	**201,917**	***20.4***	***11.0***	***-0.3***	***100.0***	***100.0***	***100.0***
% of GDP	***20.7***	***21.6***	***20.2***						

[1] Revised estimate.

[2] Budget estimate, excluding 2013 budget measures.

[3] Includes emoluments.

Note: Total may not add up due to rounding.

additional commitments undertaken during the year. The allocation also includes provision for reform initiatives under the National Key Result Areas (NKRAs) (RM963 million), National Key Economic Areas (NKEAs) (RM564 million) and Strategic Reform Initiatives (SRIs) (RM80 million). Expenditure on **emoluments**, the largest component accounting for 29.2% of operating expenditure, is expected to surge 18% to RM59.2 billion (2011: 27.5%; 7.5%; RM50.1 billion). The increase is attributed to provisions for improvements in the salary scheme of civil servants of between 7%-13% effective from 1 January 2012 (RM3.3 billion); adjustments to cost of living allowances ranging between RM150 to RM300 depending on location (RM379 million) and a revision in annual increment between RM80 to RM320 according to grade. In addition, a half month bonus with a minimum payment of RM500 was given to 1.27 million civil servants amounting to RM1.9 billion. A new time-based promotion scheme was also implemented for the teaching profession effective from May 2012 in recognition of their pivotal role in nurturing and moulding the next generation of Malaysians. The exercise, involving more than 77,400 teachers in both primary and secondary schools, is expected to cost the Government RM1.1 billion in 2012.

Mindful of the rising wage bill, and leveraging the expertise within the civil service, several measures have been introduced to foster greater inter-agency cooperation to optimise resource allocation. The 1Malaysia Patrol was launched by the Ministry of Home Affairs in October 2011 to encourage greater interaction between enforcement agencies and local communities through joint patrols to combat crime in residential areas. It complements the *Rukun Tetangga* initiative where local residents cooperate to keep their neighbourhood safe. Members of the joint patrol include the Royal Malaysia Police (PDRM), Civil Defence Department, Prisons Department, National Anti-Drug Agency and People's Volunteer Corps (RELA). Schools in the Klang Valley, including international schools have also benefitted from the programme which is aimed at increasing police presence to deter crime. The PDRM and JKDM are also involved in combating trans-border crime, including smuggling activities at various entry points via air, sea and land. The agencies share information and resources for effective crime prevention.

Expenditure on **subsidies** is expected to increase markedly by 17% to RM42.4 billion or 4.5% of GDP in 2012 (2011: 56.9%; RM36.3 billion; 4.1% of GDP) due to higher provision for fuel subsidies. The category, which comprises various subsidies (RM31.5 billion), social assistance programmes (RM10 billion) and incentives (RM854 million), accounts for 20.9% of operating expenditure. These include subsidies for fuel, sugar, cooking oil and various incentives to increase food production as well as educational assistance and social welfare programmes to improve social-economic mobility of the rakyat.

Allocation for fuel subsidy, the largest component in the category of subsidies is expected to increase 23.5% to RM25.2 billion in 2012 (2011: 112.1%; RM20.4 billion) on account of high refined petroleum prices as well as the one-off cash transfers and vouchers given to various target groups to ease the rising cost of living. As a benchmark, the price of refined petroleum products averaged USD126.17 per barrel in the first eight months of the year (2011: USD124.57 per barrel). As part of a phased approach towards reducing the fiscal burden of the Government, the premium grade petrol, RON97, is on a managed float and retails at RM3.00 per litre since 6 September 2012. RON97 is not subsidised and the pump price is adjusted to reflect movements in international prices.

Subsidy rationalisation of the widely-used RON95 has been temporarily shelved since December 2010 taking into account the effects of inflationary pressures on the rakyat. The pump price of RON95 remains at RM1.90 per litre, among the cheapest in the region. Enforcement has been stepped up to curb illegal sales and smuggling activities. Petrol stations in border areas are required to close operations at 10 p.m. to minimise smuggling of diesel and subsidised petrol across the border. Further, the sale of diesel is limited to 20 litres per vehicle from any station within a radius of 50 kilometres from the point of entry into the country. Foreigners can only purchase RON97 while Malaysians using foreign-registered vehicles are also barred from buying RON95 and natural gas (NGV).

Under the 2012 Budget, one-off cash transfers, incentive payments and book vouchers were given to targeted groups to assist them cope with the rising cost of living. The special financial assistance programmes cost the Government RM3.2 billion and were accommodated within the allocation for fuel subsidies. Several measures continue to be implemented to contain price pressures. These include subsidies for cooking oil (RM1.5 billion), toll rates (RM769 million), flour (RM150 million), provision of comprehensive rural air and rail services (RM195 million), and rebate for low-income households consuming electricity below RM20 per month (RM150 million). Subsidies for interest rate differentials amounting to RM1.5 billion will be provided, among others, for higher education student loans, microcredit schemes and to improve public transport in rural and urban areas. Access to financing is also facilitated to intensify and accelerate business activity among small and medium enterprises (SMEs). Interest rate subsidy extended to SMEs includes funding for financing daily operations; to meet emergencies as well as for revitalisation, commercialisation and innovation programmes.

Initiatives to achieve food self-sufficiency and improve productivity in the food sector as well as stabilise prices of essential food items continue to be given priority. A sum of RM2.3 billion will be spent on subsidies (RM1.5 billion) and incentives (RM854 million) to help farmers, fishermen and livestock entrepreneurs implement programmes to increase food production. The programmes include price subsidy for paddy, fertilisers, paddy seeds and incentives to increase paddy yield. Fishermen, boat owners and workers are also given financial incentives to improve fish landing.

Cash Assistance Programmes

- In the context of a social protection system, cash transfers are used as an intervention instrument by governments in many areas, including social services, food security, and poverty reduction initiatives. Policymakers around the world often consider many types of cash transfer options when constructing their social protection framework.

- Cross-country comparisons indicate varying experiences in implementing cash transfers. Countries like Argentina, Iran and Indonesia use cash transfers to reallocate the savings from the removal of energy subsidies to the poor, thus helping them overcome the adverse effects of price hikes caused by the reduction in subsidies. In contrast, countries like the Philippines provides cash grants to the poorest households to help ease the health, nutrition and education expenses of their children while Singapore uses cash handouts to help low-income groups offset higher cost due to the Goods and Service Tax (GST).

- In Malaysia, the 2012 Budget introduced several cash assistance programmes to ease the cost of living of the rakyat. Towards this, a sum of RM5 billion was allocated for the following four cash assistance programmes:

  (1) *Bantuan Rakyat 1 Malaysia* (BR1M) of RM500 per household for households with a monthly income of RM3,000 or less;

  (2) Book vouchers worth RM200 for Malaysian students in Form 6, matriculation and public and private local institutions of higher learning;

  (3) Assistance of RM100 per student for all students from Standard 1 to Form 5; and

  (4) Cash incentive of RM3,000 per person for ex-members of special constable and auxiliary police as well as their widows and widowers, and former contract officers of Community Development Department (KEMAS) and Department of Special Affairs (JASA).

- The cash assistance programmes were well received by the rakyat and helped ease the burden of the recipients.

In 2012, social assistance programmes are allocated RM10 billion. Of this, RM6.8 billion is for scholarships at all levels of education and educational assistance programmes. The programmes include various nutrition programmes, allowances, and to meet transport costs for pre-school and school children as well as contribution to Kumpulan Wang Amanah Pelajar Miskin (KWAPM) (RM200 million). Scholarships and financial assistance amounting to RM4.6 billion will also be extended to students in public institutions of higher learning (IPTAs), trainees at skills training centres, and for professional career development in the civil service.

The second component of social assistance programmes comprises various forms of financial assistance, including for the 1Malaysia Rakyat Welfare programme (KAR1SMA) to improve the quality of life of the poor, senior citizens, disabled and other vulnerable groups (RM2.9 billion). The allocation includes RM325 million expected under the NKRA for low-income households aimed at reducing the incidence of poverty. Meanwhile, the Government will continue to provide assistance (RM39 million) to promote inclusive growth among the Orang Asli. Assistance rendered includes agriculture inputs to boost farm incomes, nutritional, educational and welfare programmes as well as scholarships to institutions of higher learning.

Accounting for 15.8% of operating expenditure, **supplies and services** are envisaged to register a slower growth of 10.4% to RM32 billion (2011: 15.9%; 21.4%; RM28.9 billion) in part due to high base effect. This is also in line with administrative measures to curb discretionary expenditure despite rising expectations to improve service delivery. Major expenditure items are payments for professional and technical services; repair and maintenance; as well as supplies and rentals. Other components include payments for communication and utilities; travel; as well as food and beverage.

Debt service charges are a charged item and must be paid before all other expenditures. In 2012, debt service charges are projected to increase 15.4% to RM20.5 billion although they remain manageable at 10.1% of operating expenditure (2011: 13.4%; RM17.7 billion; 9.7%). Although debt has been rising, the level remains within the prudent limit of 55% of GDP, a fiscal rule observed by the Government.

Grants to statutory bodies, which are mainly for emoluments as well as supplies and services, are anticipated to increase 9.3% to RM15.1 billion (2011: 11%; RM13.8 billion). The 21 IPTAs, the three teaching hospitals, Majlis Amanah Rakyat (MARA) and IRB account for the bulk of expenditure at RM12.1 billion or 6% of the total. Meanwhile, RM14.2 billion or 7% of operating expenditure is set aside for **pensions and gratuities.** The sum includes adjustments made to pensions arising from the improved salary scheme announced in March 2012 as well as the special cash assistance of RM500 given to 657,000 pensioners in August 2012. **Grants and transfers to state governments** are expected to be higher at RM5.8 billion (2011: RM5.5 billion) while expenditure on **asset acquisition** will see a marked contraction of 56.7% to RM1.2 billion (2011: +42.6%; RM2.7 billion) consistent with prudent spending.

Development expenditure is projected to increase 7.3% to RM49.8 billion in 2012. The sum includes allocation for projects and programmes under the RPs and transformation initiatives under the

TABLE 4.4

Federal Government Development Expenditure by Sector 2011 – 2013

	RM million			Change (%)			Share (%)		
	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]
Economic services	**28,156**	**30,362**	**30,041**	***7.8***	***7.8***	***-1.1***	***60.7***	***60.9***	***62.9***
of which:									
Agriculture and rural development	1,128	1,901	3,297	*-61.4*	*68.6*	*73.4*	*2.4*	*3.8*	*6.9*
Trade and industry	8,364	5,491	7,579	*19.7*	*-34.3*	*38.0*	*18.0*	*11.0*	*15.9*
Transport	10,140	10,073	9,416	*17.0*	*-0.7*	*-6.5*	*21.8*	*20.2*	*19.7*
Social services	**12,607**	**13,643**	**11,113**	***-39.3***	***8.2***	***-18.5***	***27.2***	***27.4***	***23.3***
of which:									
Education and training	7,735	8,557	6,491	*-35.8*	*10.6*	*-24.1*	*16.7*	*17.2*	*13.6*
Health	2,207	1,948	1,919	*-41.6*	*-11.7*	*-1.5*	*4.8*	*3.9*	*4.0*
Housing	762	738	643	*-42.9*	*-3.2*	*-12.8*	*1.6*	*1.5*	*1.3*
Security	**4,569**	**4,394**	**4,592**	***15.1***	***-3.8***	***4.5***	***9.8***	***8.8***	***9.6***
General administration	**1,085**	**1,424**	**2,005**	***-43.4***	***31.2***	***40.8***	***2.3***	***2.9***	***4.2***
Total	**46,416**	**49,822**	**47,750**	***-12.1***	***7.3***	***-4.2***	***100.0***	***100.0***	***100.0***
% of GDP	***5.3***	***5.3***	***4.8***						

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

Note: Total may not add up due to rounding.

Public Sector Finance

NKRAs (RM6.4 billion), NKEAs (RM3.5 billion) and SRIs (RM42 million). The year 2012 marks the first year of the second rolling plan (RP2) and spans till 2013. Final payment for 112 projects from the Ninth Malaysia Plan (9MP) amounting to RM479 million has also been set aside. Additionally, RM2.5 billion is provided under the Public-Private Partnership (PPP) Facilitation Fund.

More than 5,000 projects and programmes are under implementation, including 447 under the RP2. Emphasis is given to initiatives in the social and economic sectors. Of this, about 86% comprise physical projects while the rest includes various programmes, funds and grants for strategic purposes, feasibility studies, human capital development and IT.

Consistent with efforts to enhance the productive capacity of the economy, the **economic services sector** is estimated to spend RM30.4 billion or 60.9% of total development expenditure in 2012 (2011: RM28.2 billion; 60.7%). Of this, the *transport subsector* is given the largest sum of RM10.1 billion or 20.2% (2011: RM10.1 billion; 21.8%). This is to finance the construction, maintenance and upgrading of roads and bridges, railways, airports, ports and jetties, and rural infrastructure. Major ongoing projects in the subsector include the construction of the East Coast Highway (LPT) Phase II from Jabor to Kuala Terengganu, widening of the existing Central Spine Federal Road between Kota Bharu (Kelantan) – Simpang Pelangai (Pahang) and roadworks between Sapulut – Kalabakan (Sabah). Railroad projects under construction are the electrified double-tracking projects between Ipoh – Padang Besar; Seremban – Gemas; and Gemas – Johor Bahru.

Other development projects include the upgrading and expansion of Sibu airport as well as improving port infrastructure and facilities nationwide. Meanwhile, construction, maintenance and upgrading of rural and village roads (RM1.8 billion) will be accelerated nationwide to provide better infrastructure and spur economic development in rural areas. A sum of RM1 billion is allocated for the NKRA on urban public transport which aims to provide a reliable transport infrastructure to ease traffic congestion in the city. Projects planned for the year include the refurbishment and purchase of electric multiple units (EMUs) for Keretapi Tanah Melayu Berhad (KTMB), enhancing facilities in KTMB commuter and light rail transit (LRT) stations, improving services of the bus system, building bus lanes as well as park-and-ride facilities. Public safety will be enhanced through surveillance and enforcement. Meanwhile, the MY Rapid Transit (MRT) project has advanced from preparatory work to active construction with the first phase from Sungai Buloh to Semantan expected to be completed by end-December 2016, and the full line to Kajang, operational by July 2017.

The *public utilities and energy* as well as *communication subsectors* are expected to expend RM6.4 billion of total development expenditure in 2012 (2011: RM6.9 billion). To bridge the rural-urban divide, emphasis will be on the provision of public amenities such as uninterrupted water and electricity supply, telecommunication facilities as well as sewerage services in rural areas. The allocation also includes projects for improvement of rural basic infrastructure, particularly in Sabah and Sarawak. Access to public amenities will also be expanded and upgraded in urban areas and plantations nationwide. Other projects in the subsector include expediting the implementation of high-speed broadband (HSBB) in urban areas and regional growth corridors; building water treatment facilities; improving urban drainage and initiatives to reduce the rate of non-revenue water. Funds are also provided for rainwater harvesting in the interiors of Sabah and Sarawak as well as to upgrade the services of the Emergency Call Centre (999).

The *trade and industry subsector* is allocated RM5.5 billion or 11% of total development expenditure in 2012 (2011: RM8.4 billion; 18%). Substantial provision is made to build capacity and capability as well as promote innovation and entrepreneurship in industry. Concerted efforts will be made to promote quality investment in high-end, value-added manufacturing, services, creative and knowledge based-industries as well as encourage the Malaysian diaspora and homegrown entrepreneurs to invest locally. Funds will be allocated to upgrade infrastructure facilities in industrial areas to attract new investments. Likewise, access to financial assistance for the acquisition and commercialisation of technology as well as research and development (R&D) will be made available.

SMEs have immense potential to be the engine of growth and innovation as they account for 99% of total business establishments, employ 59% of the workforce and contribute about 32% of GDP. Given their foothold in the economy, priority will continue to be given to further develop and improve SME competitiveness (RM77 million). The SME Master Plan 2012-2020 has drawn up several programmes to enable SMEs and microenterprises become home-grown champions and contribute 41% to GDP by 2020. Meanwhile, SME Corp Malaysia, the coordinating agency, will be strengthened to drive the Master Plan.

Other initiatives in the subsector include the corridor and regional development projects; funding of strategic investments; development and branding of halal products; and projects under the NKEA on Electrical & Electronics (E&E). The Government will also support the development of the Tanjung Agas Oil & Gas and Maritime Industrial Park in Pekan (Pahang). Further, RM150 million will be spent under Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN Nasional) to assist entrepreneurs further expand their existing businesses.

In 2012, a sum of RM978 million is allocated to five regional growth corridors for the construction of roads, improvement of public transport services, development of tourist and housing areas, agropolitan schemes, industrial parks, water supply projects and treatment plants. The recently completed Johor Bahru – Nusajaya coastal highway facilitates easy access to Iskandar Malaysia, reducing the cost of doing business. Major ongoing initiatives include upgrading physical infrastructure in regional development authorities (East Coast); Samalaju water supply project (Sarawak); roadworks in Labuk (Sabah); upgrading physical infrastructure in Kulim Hi-Tech Park (Kedah); heritage tourism development in Taiping (Perak); and palm oil industrial cluster project in Lahad Datu (Sabah).

Meanwhile, the *finance subsector* is allocated RM2.8 billion, with the PPP Facilitation Fund allocated the largest sum of RM2.5 billion. The PPP approach, which has been used mainly in tolled roads, power plants, ports, airports and urban transport will now be extended to social infrastructure projects such as health and education. Funds provided under the PPP initiative constitute a tipping point to ensure viability of private sector-led projects with strategic value and significant multiplier effect.

Tourism-related facilities and amenities will be upgraded while funds will also be provided to strengthen and promote existing and niche tourism products such as ecotourism, art tourism, heritage tourism, agrotourism, edutourism as well as spa and sports tourism (RM363 million). The corporatisation of Malaysia Healthcare Travel Council in October 2011 is aimed at positioning Malaysia as the main destination for health tourism in the region. Further, the redevelopment of Langkawi under the Five-Year Tourism Development Master Plan with an overall allocation of RM420 million will revitalise tourism activities in the northern region. Focus will be on setting up a park rangers unit, upgrading museums, beaches and improving the transport system. Intensive promotional activities are also underway to encourage wider participation in the Malaysia MySecond Home (MM2H) and homestay programmes as well as in international events such as the Formula 1 PETRONAS Malaysia Grand Prix; International Shoe Festival, Sarawak Rainforest Festival and Contemporary Art Festival. The MM2H programme has attracted more than 18,800 participants since its inception in 2002 and is popular among participants from Japan, China and Bangladesh. In 2012, about 25 million tourists are expected to visit Malaysia generating RM62 billion in foreign exchange earnings.

A substantial allocation of RM1.9 billion or 3.8% of total development expenditure in 2012 is provided to modernise and commercialise the *agriculture and rural development subsector*. Emphasis will be on increasing productivity as well as generating higher returns and developing new sources of growth and investments. A broad-based and robust agriculture sector will cushion the impact of an external slowdown by further strengthening the resilience of the domestic economy. With the launch of the National Agro Food Policy 2011-2020, several measures will be taken to ensure sufficient food supply; increase productivity in the agro-food sector; strengthen food supply chain as well as provide skilled labour for the subsector. Major projects to facilitate the sustainable development in the subsector include several initiatives in the Northern Terengganu Integrated Agricultural Development Project; drainage and irrigation projects, especially in Sabah and Sarawak; expanding the scope of contract farming and commercial agriculture. Agriculture support services will be enhanced to ensure sustainability of projects and programmes implemented.

Other projects promoted include the NKEA on agriculture, palm oil and rubber with an allocation of RM1 billion or 53.9% of the spending for the subsector. In efforts to accelerate replanting and new planting of oil palm, the Government is providing a one-off incentive of RM7,500 per hectare, and RM9,000 per hectare to independent smallholders in Peninsular Malaysia as well as Sabah and Sarawak, respectively subject to a pre-determined holding size. A monthly allowance of RM500 is given for a period of 24 months to assist eligible independent smallholders who are dependent on oil palm for their livelihood. To expand domestic production of high-value oleo derivatives, grants of up to 40% of the total project cost are provided to local industry players for the pre-commercialisation and acquisition of relevant technologies.

Productivity of paddy farming will be strengthened using the successful estate farming model practised in the Muda region (Kedah) which is now replicated in other granaries and non-granaries, with Batang Lupar (Sarawak) planned as a pilot project. Towards this, the drainage and irrigation infrastructure will be upgraded while high yielding paddy seeds developed through R&D activities. Meanwhile, the production of the high-value, non-seasonal fruits (honeydew, starfruit, papaya, banana, pineapple) and high-value highland vegetables (lettuce, tomatoes, capsicum) will be encouraged through upgrading the existing Permanent Food Production Zones. Additionally, the inter-cropping of banana and pineapple in oil palm plantations is also encouraged to raise incomes of planters.

Expenditure under the **social services sector** is estimated at RM13.6 billion or 27.4% of total development expenditure (2011: RM12.6 billion; 27.2%). Of this, the largest share or RM8.6 billion (2011: RM7.7 billion) is for *education and training*, reflecting the importance of investing in human capital development towards achieving a high-income, knowledge-intensive and innovation-led economy. Lifelong learning is also actively promoted to enhance skills and employability. Allocation is provided for upgrading infrastructure and facilities, R&D, improving the quality of training programmes as well as upgrading and maintenance of equipment in universities, polytechnics, skills training centres, teacher training and community colleges. Major ongoing projects include the upgrading and expansion of Universiti Malaya (UM), Universiti Kebangsaan Malaysia (UKM), and Universiti Teknologi Malaysia (UTM). Skills training programmes at Advanced Technology Training Centres (ADTECs), polytechnics, industrial training centres and community colleges will be constantly updated to meet industry demands. Polytechnics under construction, upgraded or expanded include those in Balik Pulau, Mersing, Jeli and Banting. Meanwhile, about 25 completed ADTECs and industrial training institutes will be furnished and equipped. To expand access to quality and affordable education, the school system will be strengthened with substantial allocation given to pre-school (RM172 million), primary (RM650 million) and secondary education (RM2.2 billion).

While funds continue to be provided for physical projects, emphasis is also given to improve the quality of education. Programmes include grants for research at IPTAs (RM916 million); scholarships to more than 66,100 teachers under the *Program Pensiswazahan Guru* which aims to increase the number of graduate teachers in schools; and scholarships to more than 7,400 academics to pursue doctoral studies locally and abroad.

The Government will continue to provide quality health services for the rakyat. Allocation for the *health subsector* is the second largest at RM1.9 billion or 3.9% of total development expenditure. (2011: RM2.2 billion; 4.8%). Provision is for building, upgrading and maintenance of hospitals and health clinics; purchase of medical and health equipment; improving hospital information and technology system as well as skills training. Major ongoing projects include the construction, upgrading or expansion of hospitals in Kota Kinabalu, Seremban, Kangar, Cheras, Bera, Rompin, Tampin and Tampoi. Access to rural health care services will be further strengthened through the improvement of health and dental facilities nationwide.

The *housing subsector* is allocated a sum of RM738 million to build affordable homes for the poor and low-income group as well as quarters for civil servants, including uniformed personnel. A total of 25,678 units of *Program Perumahan Rakyat (PPR) Disewa* and 443 units of *PPR Dimiliki* are under construction while 6,343 units of abandoned projects are being rehabilitated by Jabatan Perumahan Negara (JPN). The Ministry of Housing and Local Government has offered a total of 57,344 units of *PPR Disewa* for rent and 3,062 units of *PPR Dimiliki* for sale. As the houses are affordable, 93% of the *PPR Disewa* are occupied while 97% of the *PPR Dimiliki* sold. Given the popularity and affordability of such houses among the low-income group, the implementation of the PPR and rehabilitation of abandoned projects continue to be given priority. Additionally, to ensure a healthy and conducive living environment at public and private low cost housing projects, funds are set aside for their maintenance and refurbishment. For the middle-income group, home ownership will be facilitated through 1Malaysia People's Housing (PR1MA) to develop quality and affordable homes. In the initial phase, parcels of land owned by the Government around Sungai Besi and Sungai Buloh will be developed.

Apart from the health, education and housing subsectors, allocation is also provided to improve facilities and services at the local level (RM1 billion) as well as for *community and rural development* (RM646 million). Allocation is for fire-fighting services; small projects and computerisation at local authorities; building parks and recreational facilities; and eradicating urban poverty. To uplift the lives of the rural poor, allocation is also provided for village rehabilitation schemes and programmes that promote education, skills training and generate economic activities. 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. Income-generating programmes to improve the lives of rural hardcore poor will be continued through 11 agropolitan projects under the Rural Mega Leap Programme in Perak (Ganda), Sabah (Gana and Pulau Banggi), Sarawak (Batang Sadong, Batang Lupar, Pulau Bruit, Nanga Sekuau and Gunung Sadok), Pahang (Gahai and Chemomoi) and Kedah (Sik). Projects in the agroplitan schemes include the cultivation of commodity and cash crops as well as aquaculture (RM110 million). In addition, projects under the *1Azam* Programme also promote small businesses, entrepreneurship and skills development among the poor (RM40 million). Aid given to fishermen includes boats, motors and fishing nets.

The *welfare services, national unity and Orang Asli subsector* is allocated RM359 million. A sum of RM231 million will be spent on improving welfare services for the poor, elderly and vulnerable groups while RM114 million provided to enable the Orang Asli have better access to public and social amenities as well as engage them in income- generating activities. Meanwhile, the *culture, youth and sports subsector* is given RM321 million for programmes and projects under the National Creative Industry Policy, National Museum, National Visual Arts Gallery and National Archives. Allocation is also provided for skills training, leadership and entrepreneurship programmes for youth as well as upgrading youth, sports and recreational facilities.

Expenditure for the **security sector** is estimated at RM4.4 billion or 8.8% of total development expenditure in 2012 (2011: RM4.6 billion; 9.8%). Of this, RM3.6 billion is for the *defence subsector*, while RM832 million for *internal security*. The allocation is mainly for building and refurbishment of facilities; purchase and upgrading of equipment; improving surveillance, and enforcement as well as building capacity and capability of uniformed personnel through training and skills enhancement. Substantial provision continues to be given to the Immigration Department, National Registration Department, Civil Defence Department and Prisons Department to enhance service delivery. A sum of RM112 million will be spent to combat street crime under the NKRA initiative. Police presence will be increased while more closed circuit televisions (CCTV) cameras installed in crime hotspots. Additionally, various rehabilitation programmes including skills training will be strengthened to assist prison inmates adjust to life after release.

General administration will be allocated RM1.4 billion or 2.9% of development expenditure in 2012 (2011: RM1.1 billion; 2.3%) in line with initiatives to improve productivity and quality of public sector delivery system. Priority is given to enhancing computerisation systems in Government departments as well as for the development of new and wider usage of e-government applications. The use of technology will be intensified to improve access and delivery government of services to the rakyat and businesses. It is anticipated that 90% of all government services will be online by 2015. Provision is also made for land acquisition, buildings and fittings as well as for renovation, refurbishment and maintenance of government facilities such as quarters, judicial courts and training institutes. Meanwhile, the maintenance culture in the public sector will be strengthened to promote prudent use of assets. Skills set and competence in the civil service will be continuously enhanced to meet the demands of a dynamic operating environment. Institutional capacity to lead reforms within the civil service will also be strengthened. Going beyond the 'business as usual' mindset, the civil service will embrace the principles of 'speed, accuracy and integrity' while discharging their duties.

Financing

Domestic sources of borrowing

Total gross borrowings of the Federal Government are projected to decline in 2012 mainly on account of lower loan repayments and deficit financing requirements which are expected to offset marginally higher redemptions of Malaysian Government Securities (MGS) and Government Investment Issues (GIIs). The high savings rate and healthy current account surplus, coupled with low and stable inflation provide the Government ample liquidity to source its borrowings locally, without crowding out the private sector. With revenue expected to be in excess of operating expenditure, borrowings are primarily to finance development expenditure, a rule strictly observed by the Government at all times. Gross borrowings for the year are expected to reach RM96.6 billion. Of this, RM96.2 billion or 99.6% comprises domestic borrowing while RM402 million is from external sources. Of the gross borrowings, RM53.8 billion will be utilised to repay existing debt while the balance of RM42.8 billion, to finance the deficit.

In 2012, RM54.2 billion will be raised through the issuance of MGS while the balance RM42 billion, through GIIs. MGS continues to be the largest source of funding accounting for 56.4% of total gross domestic borrowings although issuances of GIIs have been steadily rising to meet the demand for high quality Islamic debt papers. GIIs merely accounted for 27.5% of the total gross domestic borrowings in 2008 (2011: 38.6%). The diversified ownership structure of Government debt papers reflects market confidence and is expected to promote a more liquid secondary market for GIIs. All issuances of MGS and GIIs are expected to be raised through open tender to leverage the low interest rate and ample liquidity in the financial market.

Of the total issuance of MGS amounting to RM54.2 billion for the year, RM21 billion will be raised through six new issues, RM31 billion through re-opening of seven existing MGS while the remaining RM2.2 billion, through a switch auction of an existing MGS. The switch auction was undertaken to ease bunching of a redemption which had cash flow implications for the Government. In response to industry demand for longer-dated good sovereign debt papers, three new issues and four re-openings have tenure of 10, 15 and 20 years. The coupon rates of new issues of MGS with tenure of between 10 and 20 years ranged from 3.42% to 4.13% during the first eight months of the year.

TABLE 4.5

Federal Government Financing 2011 – 2012

	RM million		Share (%)	
	2011	2012[1]	2011	2012[1]
Gross borrowings	**99,781**	**96,646**	***100.0***	***100.0***
Domestic	**93,312**	**96,244**	***93.5***	***99.6***
Investment issues	36,000	42,000	*36.1*	*43.5*
Government securities	57,312	54,244	*57.4*	*56.1*
External	**6,469**	**402**	***6.5***	***0.4***
Market loans	5,961	-	*6.0*	-
Project loans	508	402	*0.5*	*0.4*
Repayments	**54,162**	**53,815**	***100.0***	***100.0***
Domestic	48,244	52,900	*89.1*	*98.3*
External	5,918	915	*10.9*	*1.7*
Net Borrowings	**45,619**	**42,831**		
Domestic	45,069	43,344		
External	550	-513		
Change in assets[2]	**-3,110**	**-534**		
Total	**42,509**	**42,297**		

[1] Estimate.

[2] (-) indicates accumulation of assets.

Note: Total may not add up due to rounding.

GIIs to be raised in 2012 constitute seven new issues (RM26.5 billion) and the re-opening of four existing GIIs (RM15.5 billion). Although the Islamic debt market has shown preference for shorter-dated GIIs, four issues in 2012 are expected to be longer dated papers with a maturity of 10 and 15 years. The move is partly to meet niche demand for longer dated issues as well as to further develop the Islamic capital market.

As at end-June 2012, the major holders of MGS and GIIs were the Employees Provident Fund (EPF) (31.1%), foreign investors (27.3%), banking institutions (17.6%), and non-banking institutions (14%). Foreign holdings of MGS and GIIs have steadily increased from 11.4% as at end-December 2008 to 27.3% as at end-June 2012 as long-term investors seek safe haven and quality debt instruments which give higher yields amid excess liquidity and volatility in the global financial system. Foreign presence in the capital market is also reflective of confidence in the macro-fiscal fundamentals and growth prospects of the Malaysian economy.

Gross international borrowings for 2012 are expected to decline significantly as no new external issuances are envisaged for the year. In fact, repayment of existing loans has generally exceeded drawdowns with the exception of 2010 and 2011 when Malaysia tapped the international market with its benchmark global sukuk issues. A total of RM402 million is expected to be

TABLE 4.6

Federal Government Debt 2011 – 2012

	RM million		Share (%)		GDP (%)	
	2011	2012[1]	2011	2012[1]	2011	2012[1]
Domestic debt	**438,025**	**484,769**	***96.0***	***96.5***	***49.7***	***51.8***
Treasury Bills	4,320	4,320	*0.9*	*0.9*	*0.5*	*0.5*
Investment Issues	116,992	145,899	*25.6*	*29.0*	*13.3*	*15.6*
Government Securities	277,713	292,150	*60.9*	*58.2*	*31.5*	*31.2*
Housing Loan Fund	39,000	42,400	*8.6*	*8.4*	*4.4*	*4.5*
External debt	**18,103**	**17,590**	***4.0***	***3.5***	***2.1***	***1.9***
Market loans	10,403	10,403	*2.3*	*2.1*	*1.2*	*1.1*
Project loans	7,700	7,187	*1.7*	*1.4*	*0.9*	*0.8*
Total	**456,128**	**502,359**	***100.0***	***100.0***	***51.8***	***53.7***

[1] Estimate.

Note: Total may not add up due to rounding.

drawn down from bilateral (RM385 million) and multilateral sources (RM17 million) to finance ongoing projects and programmes related to higher education; research and training; and the Pahang – Selangor raw water transfer.

Debt

Government debt manageable

The Government is committed to ensuring the debt level remains sustainable through the implementation of sound macro-fiscal policies, adherence to fiscal rules and prudent debt management strategies. As at end-June 2012, external debt of the nation trended lower at 28.8% of GDP (end-2011: 29.2%) while total Federal Government debt is projected to be higher at 53.7% of GDP in 2012 (2011: 51.8%).

Total **Federal Government debt** is expected to increase 10.1% to RM502.4 billion (2011: 12%; RM456.1 billion) on account of higher domestic borrowings to meet funding requirements. Domestic debt remains the major portion of total debt at 96.5% or RM484.8 billion (2011: 96%: RM438 billion). In contrast, the Federal Government external debt is anticipated to decline 2.8% to RM17.6 billion (2011: +8.1%, RM18.1 billion) in the absence of new international issuances, except for drawdowns for existing project loans. Federal Government external debt, which is mainly denominated in US dollar and yen, continues to remain low and manageable at 3.5% of total debt or 1.9% of GDP (2011: 4%; 2.1% of GDP).

Although the debt level has increased in recent years, debt servicing capacity remains affordable. As a proportion of revenue, debt service charges remain manageable at 9.9% (2011: 9.6%). To ensure fiscal sustainability and macroeconomic stability, the Government will ensure total Federal Government debt does not exceed 55% of GDP while debt service charges will be capped below 15% of revenue.

External debt or national debt comprises the external debt of the Federal Government, Non-Financial Public Enterprises (NFPEs) and the private sector. As at end-June 2012, the overall

TABLE 4.7

National Debt
2011 – 2012

	RM million		Share (%)		GDP (%)	
	2011	2012[1]	2011	2012[1]	2011	2012[1]
Medium-and long-term debt	**153,509**	**159,286**	***59.6***	***59.1***	***17.4***	***17.0***
Public sector	87,750	87,312	*34.1*	*32.4*	*10.0*	*9.3*
Federal Government	18,103	17,907	*7.0*	*6.6*	*2.1*	*1.9*
NFPEs	69,647	69,405	*27.1*	*25.8*	*7.9*	*7.4*
Guaranteed	11,975	11,589	*4.7*	*4.3*	*1.4*	*1.2*
Non-guaranteed	57,672	57,816	*22.4*	*21.5*	*6.5*	*6.2*
Private sector	65,759	71,975	*25.6*	*26.7*	*7.5*	*7.7*
Short-term debt	**103,853**	**110,219**	***40.4***	***40.9***	***11.8***	***11.8***
Total	**257,362**	**269,506**	***100.0***	***100.0***	***29.2***	***28.8***

[1] End-June 2012.

Note: Total may not add up due to rounding.

external debt was higher at RM269.5 billion (end-2011: RM257.4 billion) mainly due to net borrowings in short-term as well as medium and long-term debt. The strengthening of some major and regional currencies against the ringgit during the first six months of the year also contributed to the rise in the debt level. The external debt was mainly denominated in US dollar (68.9%), yen (7.1%) and euro (3.7%).

Medium and long-term debt, accounting for 59.1% of external debt, increased to RM159.3 billion as at end-June 2012 (end-2011: 59.6%; RM153.5 billion). This was largely reflected in net borrowings by the private sector, particularly companies in finance and insurance, and manufacturing sectors. The net borrowings were mainly for investment purposes. Meanwhile, public sector debt declined marginally to RM87.3 billion (end-2011: RM87.8 billion) due to net repayment of external borrowings by the NFPEs and the Federal Government. NFPEs that registered net repayment position during the period were mainly in the mining and quarrying; finance and insurance; and utilities subsectors. Similarly, the external debt of the Federal Government moderated to RM17.9 billion (end-2011: RM18.1 billion) in the absence of new international issuances. The private sector, NFPEs and the Federal Government accounted for 45.2% and 43.6% and 11.2%, respectively of the medium and long-term external debt.

Accounting for 40.9% of external debt, short-term debt was markedly higher at RM110.2 billion as at end-June 2012 (end-2011: RM103.9 billion) mainly due to increased inter-bank borrowings and exchange rate revaluation losses which more than offset repayments during the period. The debt of the non-bank private sector, however, remained stable at RM11 billion on account of revaluation gains which more than offset a net drawdown of external borrowings. With net repayments outweighing net external drawdowns, the debt of the NFPEs continued to decline and remained low at RM234 million (end-2011: RM391 million). The banking sector remained the major holder of short-term external debt at RM98.9 billion (89.8%) followed by the non-bank private sector, RM11 billion (10%) and

NFPEs. As at end-June 2012, the external debt service ratio was 10.5%, reflecting the sustainability of export earnings to service debt obligations while international reserves at RM428.8 billion (USD134.2 billion) were sufficient to cover 3.9 times the short-term debt.

State Governments

Marginal deficit

The consolidated financial position of state governments is projected to record a lower current account surplus of RM5.9 billion in 2012 (2011: RM10.4 billion) on account of higher operating expenditure amid a significant decline in revenue. With development expenditure expected to rebound strongly, the consolidated financial position of states will, for the first time since 2003, register a small deficit of RM1.4 billion or 0.2% of GDP in 2012 (2011: +RM4.3 billion; 0.5% of GDP). The overall deficit will be financed largely by Federal Government grants and loans as well as the use of accumulated financial assets of state governments.

Total revenue of the states comprises direct and indirect taxes (21.3%), non-tax revenue (49.2%) and non-revenue receipts (29.5%) which are mainly grants and reimbursements from the Federal Government. Amid slower economic growth and moderating palm oil and rubber prices, total revenue is expected to contract markedly by 18.2% to RM16.6 billion (2011: +12.8%; RM20.3 billion). This is due to a decline in the collection of indirect taxes and lower receipts from major components of non-tax revenue such as royalties from petroleum and forestry; investment income; land premiums as well as fees from licences and permits which account for 49.7% of total revenue of states. In contrast, direct taxes are anticipated to grow double-digit by 12.4% to RM2 billion boosted mainly by receipts from quit rent and other land-based taxes amounting to RM1.9 billion (2011: 7.5%; RM1.8 billion; RM1.7 billion). Other sources of revenue include proceeds from forest produce; mining rents; as well as drainage and irrigation rates. Meanwhile, receipts from the provision of goods and services, including rentals as well as fines and penalties are expected to see a marginal increase of 7.6% to RM172 million. Grants and reimbursements from the Federal Government which are mainly for financing infrastructure and social projects as well as building and upgrading public facilities and amenities will amount to RM3.9 billion.

TABLE 4.8

Consolidated State Governments Financial Position 2011 – 2012

	RM million		Change (%)	
	2011	2012[1]	2011	2012[1]
Current Account				
Revenue	20,339	16,630	*12.8*	*-18.2*
Operating expenditure	9,917	10,703	*11.2*	*7.9*
Current account balance	10,422	5,927		
Development account				
Gross development expenditure	6,571	7,797	*-6.3*	*18.7*
Development fund	6,464	7,523		
Water supply fund	107	274		
Less: Loan recovery	433	428		
Net development expenditure	6,138	7,369	*-5.2*	*20.1*
Overall balance	4,284	-1,442		
% of GDP	0.5	-0.2		

[1] Revised estimate.

Note: Total may not add up due to rounding.

State governments are expected to incur higher expenditure at RM18.5 billion in tandem with concerted efforts to spur economic growth, stimulate investment activity and improve service quality. Operating expenditure is expected to increase 7.9% to RM10.7 billion, while development expenditure, 18.7% to RM7.8 billion. Emoluments as well as supplies and services remain the largest

TABLE 4.9

Consolidated General Government Financial Position 2011 – 2013

	RM million			Change (%)		
	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]
Current account						
Revenue	218,291	237,344	235,322	*17.6*	*8.7*	*-0.9*
Operating expenditure	199,699	222,161	221,276	*19.1*	*11.2*	*-0.4*
Current account balance	**18,592**	**15,183**	**14,047**			
Development expenditure	51,775	55,123	54,483	*-4.2*	*6.5*	*-1.2*
Overall balance	**-33,182**	**-39,940**	**-40,437**	***-7.8***	***20.4***	***1.2***
% of GDP	***-3.8***	***-4.3***	***-4.0***			

[1] Revised estimate.

[2] Budget estimate, excluding 2013 tax measures.

Note: Total may not add up due to rounding.

component of operating expenditure at 57.7%, while the balance is for asset acquisition and transfers to local authorities, statutory bodies and other trust funds. Development expenditure will be utilised for agriculture and rural development; drainage and irrigation; utilities and public amenities as well as upgrading physical infrastructure to accelerate business and industrial activities in 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 record a higher deficit of 4.3% of GDP in 2012 (2011: -3.8%). This is on account of higher overall expenditure commitments which more than offset an increase in revenue. The Federal Government allocated RM15.1 billion and RM5.8 billion (2011: RM13.8 billion; RM5.5 billion) to statutory bodies and state governments, respectively in the form of grants and transfers in 2012.

Non-Financial Public Enterprises

Strategic investments

The consolidated revenue of the NFPEs is expected to rebound strongly by 11.1% to RM389.6 billion in 2012 (2011: -4.7%; RM350.8 billion) despite declining CPO and rubber prices, and moderating growth in the domestic economy, coupled with continuing uncertainties in the external environment. The double-digit turnaround in revenues is due to the low base effect arising mainly from the change in PETRONAS fiscal year, from 1 April to 31 March to the January –December calendar year beginning 2012. Hence, data for 2011, being the transition year, reflected its financial position for a nine-month period, from April to December 2011. Steady sales of electricity and vehicles; moderating coal prices; sustained returns from overseas operations and investments; improved air and rail passenger traffic; gains from real estate development; and strong expansion in telecommunications are anticipated to support revenue growth of NFPEs in 2012. Positive contribution is also expected from ancillary businesses, including real estate

TABLE 4.10

Consolidated NFPEs Financial Position[1] 2011 – 2012

	RM million		Change (%)	
	2011	2012[2]	2011	2012[2]
Revenue	350,800	389,599	*-4.7*	*11.1*
Current expenditure	296,583	334,122	*-2.0*	*12.7*
Current surplus	**54,216**	**55,478**		
Development expenditure	50,068	113,464	*1.5*	*126.6*
Overall balance	**4,149**	**-57,986**		
% of GDP	***0.5***	***-6.2***		

[1] Refers to 30 major NFPEs.

[2] Revised estimates.

Note: Total may not add up due to rounding.

and trade-related activities of the NFPEs. Major contributors to the consolidated revenue include PETRONAS, TNB, Axiata Group Berhad (Axiata), Malaysia Airlines System Berhad (MAS), UEM Group Berhad (UEM), and Telekom Malaysia Berhad (TM).

The strong expansion of business and commercial activities at home and abroad are expected to impact operating costs of the NFPEs. The consolidated current expenditure is expected to grow at a strong pace of 12.7% to RM334.1 billion in 2012 (2011: -2.0%; RM296.6 billion) on account of higher cost of raw materials and fuel, staff costs, rental, marketing, utilities, user fees, repair and maintenance costs as well as continuous improvements in product and service delivery. Despite rising operating costs, the NFPEs are expected to be partly cushioned through productivity gains from cost cutting measures instituted to improve operational efficiency. Savings are anticipated from improved procurement strategy, effective inventory stock management, route rationalisation, and value creation of idle and loss-making assets. With growth in current expenditure outpacing revenue, the NFPEs are expected to record a marginally higher current surplus of RM55.5 billion (2011: RM54.2 billion).

Although operating in an environment mired in economic and geopolitical concerns, compounded by tepid global growth, the NFPEs are expected to remain competitive, strengthened in part by the significant progress made from the ongoing Government-Linked Companies (GLCs) transformation programme. The overall development expenditure of the NFPEs is also anticipated to accelerate to RM113.5 billion (2011: RM50.1 billion) as they compete to maximise investment opportunities, expand market share, boost shareholder value and enhance long-term growth potential. Investments at home and abroad are mainly for improving infrastructure, upgrading, refurbishing and modernising existing facilities; capacity expansion; product and services enhancement as well as undertaking new investments to sustain future earnings. NFPEs have established a strong presence in emerging markets in areas such as oil and gas, telecommunications, plantations, power generation, construction and real estate.

Domestic investments are expected to increase markedly by 87.4% to RM64.6 billion accounting for 63.8% of total investments (2011: -4%; RM34.5 billion; 61.4%). The bulk of domestic investments will be in oil and gas; power generation, transmission and distribution; property development and construction; plantations; telecommunications; as well as road, air and urban rail infrastructure, facilities and equipment. Major projects include exploration and development of new oil and gas fields; rejuvenating marginal oil fields, liquefied natural gas (LNG) regasification terminal in Melaka, expanding coverage of HSBB network and increasing internet access via wireless fidelity (Wi-Fi) hotspots. While some NFPEs have embarked on turnaround plans and rebranding to revitalise growth and revenue prospects, others have invested heavily in projects such as building power plants; construction of the new teminal for low-cost carriers (klia2); aircraft fleet modernisation; upgrading telecommunication data infrastructure; extension of the Kelana Jaya – Ampang LRT to Putra Heights as well as purchase of rolling

TABLE 4.11

Consolidated Public Sector Financial Position 2011 – 2013

	RM million			Change (%)		
	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]
Revenue	161,543	186,796	180,412	*27.0*	*15.6*	*-3.4*
Operating expenditure	197,174	221,580	220,636	*18.0*	*12.4*	*-0.4*
NFPEs current surplus	108,369	105,344	128,674	*-12.0*	*-2.8*	*22.1*
Public sector current balance	**72,738**	**70,559**	**88,450**			
Development expenditure	101,801	168,522	154,839	*-1.2*	*65.5*	*-8.1*
General government	51,733	55,058	54,326	*-3.6*	*6.4*	*-1.3*
NFPEs	50,068	113,464	100,513	*1.5*	*126.6*	*-11.4*
Overall balance	**-29,063**	**-97,962**	**-66,389**			
% of GDP	***-3.3***	***-10.5***	***-6.6***			

[1] Revised estimate.

[2] Budget estimate, excluding 2013 tax measures.

Note: Total may not add up due to rounding.

stock, equipment and spares to improve rail services in urban and rural areas.

Currently, NFPEs are involved in projects that will have significant impact on economic growth as well as transform the physical, financial and digital landscape of Malaysia in future. These include the construction of the MRT from Sungai Buloh to Kajang (SBK); development of the financial district, Tun Razak Exchange (TRX), (Kuala Lumpur); mixed development in Bandar Malaysia (Sungai Besi) as well as real estate development in Iskandar Malaysia. Additionally, efforts to develop a comprehensive digital ecosystem in Malaysia will be intensified through the pervasive use of digital technology that will permeate all spheres of social and economic activities.

Given the marked increase in current and capital expenditure, the consolidated financial position of the NFPEs is projected to register the highest deficit to date at 6.2% of GDP (2011: +0.5% of GDP) despite robust revenue prospects. NFPEs continue to undertake strategic investments which have long gestation period; require heavy capital outlay; and may be less commercially viable though vital for the development of niche growth areas in the economy. However, to spur greater private sector activity and further develop a deep and liquid capital market, the Government will continue to divest its interests in non-core and non-competitive assets of the NFPEs.

Consolidated Public Sector

Lower current surplus

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 2012, the consolidated public sector is expected to post a lower current account surplus, contracting 3% to RM70.6 billion (2011: -12.6%; RM72.7 billion). This is mainly due to the decline in the current surplus of the NFPEs on account of rising operational costs which are expected to impact revenues. Coupled with markedly higher investment commitments by NFPEs, the financial position of the consolidated public sector is anticipated to reflect a higher overall deficit of RM98 billion or 10.5% of GDP (2011: -RM29.1 billion; -3.3%). The sharp increase in capital expenditure over 2011 is also partly due to the change in the fiscal year of PETRONAS beginning 2012.

Prospects for 2013

Lower deficit

While economic prospects for advanced economies in 2013 remain modest, emerging economies are expected to post resilient growth. Supported by sustained expansion in domestic investment and consumption activity as well as an improved external sector, the Malaysian economy is expected to grow 4.5% – 5.5%. Private sector activity will be supported by broad-based growth across all sectors; speedy implementation of public sector programmes and projects, continued access to credit, favourable labour market conditions as well as steady intra-regional trade.

The conduct of fiscal policy will continue to be challenging as fiscal resources have competing needs and goals. These include the need to sustain the growth momentum to offset any weakness in external demand, provide funding to effect structural changes in the economy for quality, inclusive and balanced growth while ensuring sound public finances. Recognising that fiscal sustainability is imperative for steady economic growth, the medium-term fiscal targets on debt and deficit must also be met by 2015 as reflected in the 10MP. Supported by prospects of steady revenue performance in line with resilient economic activity, Federal Government revenue is expected to be marginally higher at RM208.7 billion, partly due to the high-base effect in 2012. Total expenditure is, however, projected to contract 1.1% to RM249.7 billion reinforced by measures to rein in discretionary spending, resulting in a lower fiscal deficit of 4% of GDP in 2013.

The 2013 Budget will focus on measures that will accelerate transformation towards an advanced nation. Concerted efforts will be undertaken to raise the potential output of the economy, boost its competitiveness and improve labour productivity. Programmes and projects outlined in the 10MP, NKRAs, NKEAs and SRIs will be implemented on schedule and rigorously monitored. Fiscal resources will be used to reinvigorate business activity and attract investments, with SMEs given special focus as they are the backbone of the economy. Issues related to intellectual property rights (IPR), patent registration and access to financing will be addressed while venture capital will be made available to budding entrepreneurs in new fields. Excellence in education will be pursued to produce a workforce that is competitive, multi-skilled and agile to meet the dynamic needs of the market. To enable the rakyat in rural and urban areas have access to an array of quality public and private services, the scope and number of community transformation centres will be increased. The agriculture sector will be revitalised while food security and the supply chain strengthened. Idle lands will continue to be developed to promote a higher value added agro-food industry. The Government will continue to safeguard the well-being of the rakyat while public sector service delivery will be optimised to be more nimble and responsive in a private sector-led economy. To realise these initiatives, the 2013 Budget will allocate substantial funds for projects under the RPs, NKEAs (RM3.3 billion) and SRIs (RM154 million). Meanwhile, the Government Transformation Programme (GTP) will advance into the second phase covering the period 2013-2015 with the NKRAs allocated RM5 billion in 2013. A sum of RM2.5 billion is provided to implement strategic projects with significant multiplier effects under the PPP initiative.

Operating expenditure is projected to decline marginally to RM201.9 billion on account of concerted efforts to exercise prudence in spending. The sum includes an allocation of RM1.6 billion for reform initiatives under the NKRAs (RM1.3 billion), NKEAs (RM235 million) and SRIs (RM24 million). Major targeted areas are education; commercial agriculture; crime prevention; tourism; research; as well as income-generating activities for low income households and small businesses. Funding is also given for preparatory work towards the adoption of accrual accounting by 2015. Provision for **emoluments** will amount to RM58.6 billion. Meanwhile, allocation for charged and locked-in items such as **debt service charges** (RM22.2 billion) as well as **grants and transfers to state governments** (RM6.3 billion) will be increased due to rising commitments. **Pensions and gratuities** (RM13.6 billion) will be allocated a marginally lower sum due to the extension in the optional retirement age of civil servants from 58 to 60 years.

Supplies and services as well as **asset acquisition** will be provided RM33.7 billion and RM1 billion, respectively to improve the quality of public service delivery and ensure public assets are well maintained and fully utilised. In contrast, total payments for **subsidies** comprising various subsidies (RM26.4 billion), incentives (RM874 million) and social assistance programmes (RM10.4 billion) will be lower at RM37.6 billion. This is not expected to impinge on the well-being of the rakyat, in particular, the vulnerable groups as the lower provision is for fuel subsidies (RM20 billion). Prices of refined petroleum products are anticipated to moderate due to weaker global demand. Fuel subsidy, at 9.9% of operating expenditure, is the largest component in subsidies. Likewise, **grants to statutory bodies** will be reduced to RM14 billion consistent with the move to promote lean organisations.

Development expenditure will be allocated a lower sum of RM47.8 billion or 19.1% of total expenditure in 2013. The allocation includes provision for the rollout of projects under the RPs, NKRAs (RM3.6 billion), NKEAs (RM3 billion) and SRIs (RM130 million). Reform initiatives will be accelerated, with substantial allocation for the NKRA programmes to improve rural basic infrastructure (RM3.2 billion) and urban public transport (RM233 million). Allocation for the NKEA initiatives will focus on, among others, Greater KL/Klang Valley (RM742 million), tourism (RM792 million), agriculture (RM722 million) and palm oil (RM696 million). Key programmes under the SRIs relate to strengthening public finance (RM94 million) and enhancing human capital development (RM18 million).

The **economic services sector** will be allocated the largest sum at RM30 billion or 62.9% of total development expenditure in 2013. Focus will be on infrastructure development and improving public transport as they contribute to productive capacity and efficiency in the economy. Towards this, RM9.4 billion is allocated for the *transport subsector*, including RM4.2 billion for improving access and connectivity in urban public transport. Substantial provision is also made for the construction, maintenance and upgrading of roads and bridges, railways, airports, ports and jetties as well as rural infrastructure Major ongoing transport projects include the East Coast Highway (LPT) Phase II from Jabor to Kuala Terengganu and the Central Spine Federal Road (Package 3). New projects slated for the year include upgrading of roadworks between Donggongan to Simpang Jalan Papar Spur (Package 1) (Sabah), Pekan-Nenasi-Endau (Pahang); and Batu Maung to Pulau Pinang Second Bridge (Bayan Lepas Expressway) as well as upgrading of rail infrastructure in Lembah Klang (Phase 1). Construction of the West Coast Highway from Taiping to Banting is also expected to commence in 2013.

Domestic economic activities will be further strengthened in the light of heightened uncertainties in the external environment. The *trade and industry subsector* is allocated RM7.6 billion mainly for upgrading infrastructure facilities in industrial areas; funding strategic investments; enhancing skills and entrepreneur development as well as promoting vendor development programmes for the automotive sector. SMEs will continue to be given priority, given their dominant presence in the economy. Access to financing, technology as well as technical and advisory services will be enhanced to make them more competitive and move up the value chain. To capitalise on Malaysia's comparative advantage, halal products will be diversified, and the logo and trademark, strengthened to meet international standards (RM20 million). Funds will also be channelled to state economic development corporations for the implementation of various development programmes.

Corridor development will be expedited with an allocation of RM1.3 billion for comprehensive infrastructure development and special projects. Given the wide range of projects undertaken, the five growth corridors will continue to generate investment opportunities, create jobs, encourage skills development and nurture the development of local industries. The *tourism subsector* will be given a boost with an allocation RM458 million to develop new and niche products for discerning tourists; upgrade tourism-related facilities and amenities as well as for more targeted marketing. Concerted efforts will be made to intensify promotional activities to attract tourists from non-traditional countries for the Visit Malaysia Year 2013/2014 (RM125 million). Ecotourism and homestay programmes will be further strengthened (RM19 million) while RM100 million will be provided to enhance Langkawi as a tourist destination. Tourist receipts in 2013 are estimated at RM64 billion from 26 million tourists.

The *public utilities, energy* and *communication subsectors* are allocated RM4 billion for water supply and electrification projects as well as sewerage services nationwide. The implementation of the HSBB in urban and priority economic growth areas will be accelerated to improve business efficiency and productivity.

Reinvigorating the *agriculture subsector* as well as accelerating rural land and regional development remain key priorities (RM3.3 billion). Focus will be on improving efficiency and productivity in the sector through the adoption of modern farm technology and accredited practices, commercialising R&D output as well as encouraging high-value added activities. Substantial allocation is provided to further develop and modernise paddy cultivation; livestock industry; fisheries and aquaculture; poultry and dairy farming as well as the cultivation of fruits, vegetables and herbs. Agriculture extension services and skills training programmes will be enhanced to better serve the farming community (RM17 million). Allocation is also provided to uplift the lives of the rural poor, improve basic infrastructure facilities in farms, upgrade drainage and irrigation, undertake flood mitigation projects as well as promote commercial agriculture. A sum of RM152 million is also given to spur agrotourism activities, including building capacity and capability within the community to fully engage and benefit from the growing industry. Funding for R&D activities which cut across all sectors including industry, social sciences, health, IT and biotechnology will be RM758 million.

The **social services sector** is allocated RM11.1 billion, with the *education and training subsector* given the largest allocation of RM6.5 billion to meet the growing demand for a talented, highly skilled, creative and innovative workforce. Of this, RM3 billion is allocated to further strengthen higher education through upgrading and expansion of several IPTAs, encouraging research activities and improving the quality of the teaching fraternity. Provision is also made for pre-school (RM27 million), primary and secondary education (RM1.2 billion) while RM1.5 billion is for skills and management training programmes at teacher training colleges, polytechnics, industrial training institutes and community colleges. Pre-school education especially in rural areas, will be expanded and strengthened to nurture a solid foundation in education. Meanwhile, eight new primary and secondary school projects will be undertaken, while 160 are under construction. Substantial allocation is also provided for the maintenance and refurbishment of schools nationwide, in particular schools in rural areas in Sabah and Sarawak.

Access to quality and affordable healthcare in rural and urban areas will be further enhanced. Towards this, the *health subsector* is given the second largest allocation of RM1.9 billion to build and upgrade hospitals, clinics and purchase medical equipment. Of this, RM680 million will be used to upgrade medical and health facilities in 82 hospitals, including Taiping (Perak) and

Tuaran (Sabah) while RM616 million will be set aside for the construction of hospitals and clinics in rural and urban areas.

Service delivery as well as provision of infrastructure and facilities at the local level will be further improved through a sum of RM894 million. The allocation is mainly for solid waste management (RM213 million), small projects in local authorities (RM311 million), firefighting services (RM240 million) recreational facilities (RM54 million) and landscaping (RM3 million). *Community and rural development* will be given a substantial sum of RM436 million to uplift the lives of the rural poor. Programmes include a broad range of welfare services and income-generating activities for the poor and vulnerable groups. Provision is also made for building and repairing dilapidated homes, skills training and upgrading basic infrastructure. Meanwhile, RM191 million will be provided to assist the 190,000 Orang Asli community, mainly residing in Pahang and Perak integrate into mainstream economic activity.

The Government will continue to provide quality and affordable public housing for the rakyat (RM642 million). A sum of RM289 million is for the construction, maintenance and rehabilitation of *PPR Dimiliki*, *PPR Disewa* and *PPR Bersepadu* as well as for public housing in Southern Johor. In addition, RM153 million will be used for the proper maintenance of private and public housing projects. Access to affordable homes for the middle-income group will be facilitated through the PR1MA with an allocation of RM200 million.

National security and public safety are a prerequisite for quality living and a conducive business environment. Towards this, the **security sector** will be provided RM4.6 billion, of which RM3.9 billion is for the *defence subsector*, and RM644 million for *internal security*. The allocation will be utilised to enhance the capacity and capability of uniformed personnel through the purchase and upgrading of equipment as well as improving surveillance and skills enhancement. Priority will be given to crime prevention activities with police presence intensified in commercial and residential areas. Another source of concern is the rising number of road accidents and fatalities. The Automated Enforcement System (AES), introduced in late 2012 will be expanded with fixed and portable cameras installed along highways, federal and state roads nationwide in more than 830 'black spots' (RM800 million). Widely used in Sweden, France, the United Kingdom and China, the AES has been proven to be effective in reducing the number of road accidents and fatalities.

General administration will be allocated RM2 billion to undertake continuous improvements in public service delivery, promote higher IT usage in the civil service as well as for repair and maintenance of Government facilities nationwide. Provision is also made for computerisation of Government departments, technical assistance projects and land acquisition. Programmes and initiatives related to upgrading and enhancing e-Government services include the Government's official portal (myGovernment); electronic payment (myBayar); Government SMS Gateway (mySMS 15888); single window job recruitment (JobsMalaysia); single access to online services (myGovXchange) and Government news on the net (myGovinfo). Survey and mapping services will also be enhanced through an allocation of RM19 million.

Federal Government **revenue** is projected to increase to RM208.7 billion supported by higher tax revenue (RM159.2 billion) in tandem with continued expansion in domestic economic activity and an improved external sector. All components of tax revenue, comprising **direct tax** (RM122 billion) and **indirect tax** (RM37.2 billion) are anticipated to register a positive growth, supported by steady corporate earnings, continued access to financing, stable labour market conditions and income growth as well as gains from intra-regional trade. Receipts from PITA are, however estimated to be lower by 4.6% to RM30.5 billion in anticipation of moderating crude oil price (Tapis) despite higher production and steady demand from countries, such as China, India, Korea, Singapore, Australia and Thailand.

Likewise, **non-tax revenue** is anticipated to decline 9.6% to RM49.5 billion mainly due to lower returns on investment income and proceeds from petroleum royalties and the MTJA. Dividend income from PETRONAS (RM27 billion), BNM (RM2 billion) and Khazanah (RM500 million) as well as receipts from monetisation of assets (RM500 million) are, however, expected to remain firm. Additionally, revenue from the Federal Territories is projected to be favourable at RM593 million in tandem with resilient consumption and investment activity.

The Government remains committed to strengthening its finances while supportive of economic growth and reform initiatives. Medium-term fiscal targets reflected in the 10MP as well as rules on spending and debt management will be strictly observed to promote fiscal sustainability, macroeconomic stability and to boost market confidence. The Government recognises that a strong fiscal position will generate ample policy space for the adoption of policies that will enhance competitiveness and productive capacity, and raise the long-term growth prospects of the economy. Towards this end, concurrent efforts are underway to diversify sources of growth and revenue, strengthen service delivery, and improve the efficacy of Government spending. Good governance, prudent financial management and the implementation of pragmatic policies will ensure healthy public finances.