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PUBLIC SECTOR FINANCE

ECONOMIC REPORT **2013/2014**

Public Sector Finance

Overview

Fiscal Policy Committee to strengthen public finances

Uncertainties in the external environment continue to pose challenges for the conduct of fiscal policy in 2013. As an open and trade-reliant economy, Malaysia is impacted by a weak external sector, moderating commodity prices and volatility in the global financial markets. During the year, fiscal resources were channelled to generate quality and inclusive growth; boost investment activity; strengthen education and training; improve service delivery as well as encourage a culture of innovation to increase productivity. These measures are expected to sustain the growth momentum and enhance potential output of the domestic economy while strengthening government finances.

Spending requirements for the year were reassessed, taking into account new commitments as well as the capacity of government departments to implement planned projects. Supported by higher revenue collection and gains from improved expenditure management, net additional spending for the year amounting to RM11.6 billion was accommodated. They were mainly for cash transfers; fuel subsidies; salary and pension adjustments for civil servants and pensioners; improved remuneration scheme for the Armed Forces; as well as maintenance and utilities.

Despite the higher expenditure incurred during the year, the Government will not compromise on its self-imposed guiding principles observed over the years to ensure healthy public finances. The rules include, among others, to maintain an operating surplus at all times; reduce the fiscal

deficit to around 3% by 2015; move towards a balanced budget by 2020; and ensure Federal Government debt does not exceed 55% of Gross Domestic Product (GDP). Spending will be prudent and for productive purposes. Subsidy rationalisation of sugar and fuel has resumed. In moving towards a leaner government, the size of the civil service will continue to be managed through staff redeployment; multitasking; intensive use of information technology (IT); and greater inter-agency cooperation through initiatives such as the National Blue Ocean Strategy (NBOS) to optimise resource utilisation without affecting quality of outcomes. Project implementation is rigorously monitored to ensure timely implementation to avoid cost overruns.

Ongoing measures to improve Government finances will contribute to meeting near-term fiscal goals. However, to ensure sound public finances over the longer term, structural reforms and a more strategic management of fiscal resources are imperative. In this regard, the Government announced the setting up of the Fiscal Policy Committee (FPC) and Fiscal Policy Office (FPO) in mid-June 2013. The FPC will oversee fiscal management of the nation. Its mandate includes formulating strategies to strengthen public finances, ensure fiscal sustainability and long-term macroeconomic stability. Chaired by the Prime Minister, members comprise selected Cabinet Ministers, the Chief Secretary to the Government and heads of key central agencies. The FPC, which is expected to meet at least twice a year, will be supported by the FPO in its deliberations. The FPO, a unit within the Ministry of Finance, will be upgraded and will head an inter-agency technical working group which includes Bank Negara Malaysia (BNM) and the Economic Planning Unit (EPU) as well as other agencies, as required. The technical working

group is expected to meet on a quarterly basis. In addition, the FPO will also undertake analytical work related to medium-term fiscal framework; fiscal risks assessment; debt management as well as extensive engagement with international financial institutions, ratings agencies, fund managers and analysts.

In 2013, fiscal consolidation will be pursued while supportive of policies that boost economic growth and resilience of the domestic economy. The budget deficit of the Federal Government will, therefore, be further reduced from 4.5% of GDP in 2012 to 4.0% in 2013. Given these challenges, the public sector is expected to expand 6.5%, contributing 1.6 percentage points to GDP growth (2012: 10.3%; 2.4 percentage points). The public sector's share to GDP will, therefore, remain high at 24.9% (2012: 24.5%).

Federal Government

Committed to fiscal consolidation

Total Federal Government expenditure is expected to grow 3.5% to RM261.3 billion, the slowest pace since 2010, despite higher

commitments during the year. However, revenue performance is anticipated to remain firm though tempered by a lacklustre external environment. Nevertheless, this affords the Government room to further strengthen its finances and ensure the Federal Government debt remains sustainable.

Revenue

Steady revenue collection

Federal Government revenue in 2013 is expected to remain favourable amid continued expansion in the domestic economy. Supported by sustained investment and consumption activity as well as firm crude oil prices, total revenue collection is projected to increase 6% to RM220.4 billion or 22.3% of GDP (2012: 12.1%; RM207.9 billion; 22.1%). While non-tax revenue is expected to remain stable at RM56.9 billion, tax revenue is set to increase 7.8% to RM163.5 billion, contributing 74.2% to total revenue (2012: 12.4%; RM151.6 billion; 72.9%). As a percentage of GDP, tax revenue remains high at 16.6%, partly due to continuous administrative efforts to expand the revenue base.

TABLE 4.1

Federal Government Financial Position 2012 – 2014

	RM million			Change (%)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Revenue	207,913	220,422	224,094	12.1	6.0	1.7
Operating expenditure	205,537	216,184	217,651	12.6	5.2	0.7
Current balance	2,376	4,238	6,443			
Gross development expenditure	46,932	45,065	44,500	1.1	-4.0	-1.3
Less: Loan recovery	2,606	1,574	949			
Net development expenditure	44,326	43,491	43,551	-2.2	-1.9	0.1
Overall balance	-41,951	-39,253	-37,108			
% of GDP	-4.5	-4.0	-3.5			

¹ Revised estimate.

² Budget estimate, excluding 2014 tax measures.

Note: Total may not add up due to rounding.

TABLE 4.2

**Federal Government Revenue
2012 – 2014**

	RM million			Change (%)			Share (%)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Tax revenue	151,643	163,506	171,970	12.4	7.8	5.2	72.9	74.2	76.7
Direct tax	116,937	127,020	133,148	14.4	8.6	4.8	56.2	57.6	59.4
of which:									
Companies	51,288	60,431	65,729	9.4	17.8	8.8	24.7	27.4	29.3
PITA ³	33,934	30,507	28,275	22.3	-10.1	-7.3	16.3	13.8	12.6
Individual	22,977	26,429	28,746	13.7	15.0	8.8	11.1	12.0	12.8
Indirect tax	34,706	36,486	38,822	6.3	5.1	6.4	16.7	16.6	17.3
of which:									
Excise duties	12,187	12,728	13,442	5.8	4.4	5.6	5.9	5.8	6.0
Sales tax	9,496	10,199	10,986	10.7	7.4	7.7	4.6	4.6	4.9
Non-tax revenue	56,270	56,916	52,124	11.4	1.1	-8.4	27.1	25.8	23.3
of which:									
Licences and permits	13,570	13,468	13,149	21.3	-0.8	-2.4	6.5	6.1	5.9
Investment income	36,736	35,062	32,065	8.0	-4.6	-8.5	17.7	15.9	14.3
Total revenue	207,913	220,422	224,094	12.1	6.0	1.7	100.0	100.0	100.0
% of GDP	22.1	22.3	21.2						

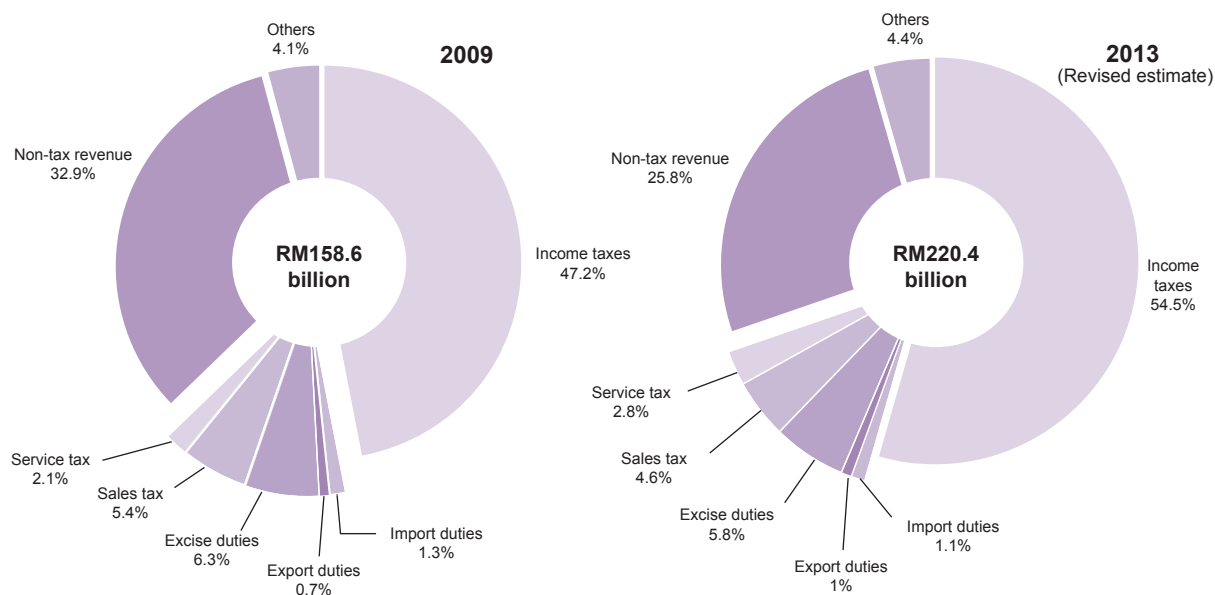
¹ Revised estimate.² Budget estimate, excluding 2014 tax measures.³ Petroleum income tax.

Note: Total may not add up due to rounding.

Direct tax is expected to increase 8.6% to RM127 billion (2012: 14.4%; RM116.9 billion) mainly due to a double-digit growth in corporate and individual income tax to RM60.4 billion and RM26.4 billion, respectively (2012: RM51.3 billion; RM23 billion). The strong performance is attributed to stable employment conditions, sustained wage growth and continued corporate profitability. The additional salary increment given to civil servants effective from July 2013 is also anticipated to contribute to higher tax receipts. Under the 2013 Budget, about 170,000 individual taxpayers are expected to drop out of the tax net following the reduction of one percentage point for chargeable income bands from RM2,501 to RM50,000. This is, however, not expected to impact revenue collection.

Revenue from petroleum income tax (PITA) is, however, estimated to decline 10.1% to RM30.5 billion (2012: 22.3%; RM33.9 billion) due to lower export prices despite higher production and the appreciation of the US Dollar (USD). The price of Tapis Blend, which averaged USD114 per barrel (pb) for the first nine months of the year, is trading at USD118 pb as of 14 October 2013 (2012: USD119 pb). Although the external environment continues to be mired in uncertainties, receipts from stamp duties are expected to be robust, growing 11.1% to RM6.2 billion (2012: 13.5%; RM5.6 billion), signalling strong business confidence in the domestic economy. Likewise, revenue from real property gains tax (RPGT) will amount to RM653 million (2012: RM608 million) due to higher value of property

CHART 4.1

Federal Government Revenue

Source: Ministry of Finance, Malaysia.

transactions despite the upward revision in RPGT rates effective from 1 January 2013 to curb speculative activities in the real property market. Receipts from other direct taxes, including withholding tax (RM2.3 billion) and cooperative income tax (RM357 million) are expected to remain firm, in line with resilient economic activity.

The oil and gas (O&G) industry continues to be the largest contributor to tax revenues, followed by wholesale and retail trade; financial intermediaries and real estate; and the manufacturing sector. Consistent with improving incomes and tax compliance, the total number of registered taxpayers was higher at 7.6 million as at end-July 2013 (2012: 7.3 million). Of this, 7.1 million (92.6%) were individual taxpayers, 549,359 (7.2%) companies while the rest included cooperatives, societies and various trust bodies. Taxable returns comprised two million individuals and 142,496 companies. Submission of tax returns through e-filing has

become the norm since it was introduced in 2006. As at end-August 2013, more than three million or 77.6% of the submissions were through e-filing, an increase of 10% over 2012. Likewise, taxpayers are also more confident in using e-payment to settle their taxes, with about 306,734 transactions conducted in 2013, up 34% from 2012. The electronic way of handling tax matters is widely accepted due to its reliability, confidentiality, ease of usage as well as faster tax refunds.

Tax collection continues to improve through higher compliance, tax education and efficiency gains made in tax administration, audits, investigations and enforcement. The Inland Revenue Board (IRB) in close cooperation with the Royal Malaysian Customs Department (JKDM), BNM, and the Attorney-General's Chambers has been vigilant against tax evasion, under-declaration of customs duties, and money laundering. Concerted efforts are ongoing by the IRB and JKDM to expand

Implementation of Goods and Services Tax in Malaysia

Introduction

The Goods and Services Tax (GST) is a broad-based consumption tax which is paid when goods and services are purchased or consumed. In some countries, it is also known as Value Added Tax (VAT) and is imposed on the value-added of goods or services at each stage of the production and distribution chain. The tax element is not part of the product cost as GST on business inputs is claimable. First introduced in France in 1954, GST is currently implemented in more than 160 countries, including less developed ones, at rates between 5% to 27%. All countries in ASEAN have implemented GST except Brunei, Myanmar and Malaysia.

Sales Tax and Service Tax

Sales tax and service tax will be abolished and replaced with GST, if implemented. Sales tax was introduced in 1972 (Sales Tax Act 1972) and is charged on taxable goods at the manufacturer's level, with annual sales turnover exceeding RM100,000. Imported goods are also subject to sales tax. A standard tax rate of 10% is imposed on a wide range of goods, while 5% is imposed on selected products such as food items, sanitary products as well as construction and building materials.

Meanwhile, the Service Tax Act 1975 allows for a rate of 6% to be imposed on taxable services provided by restaurants and hotels, telecommunication services and professional services such as architects, engineers, lawyers, surveyors and accountants. Since January 2010, service tax is also imposed on credit and charge cards at RM50 per year and RM25 for supplementary cards.

There are inherent weaknesses in the structure and implementation of the sales and the service tax. The sales and the service tax are considered complex often giving rise to administrative problems. The tax system is also seen as contrary to basic tax principles such as neutrality, equity and efficiency. Major weaknesses in the present system are as follows:

- **Cascading effect due to multiple taxes**

Two separate tax systems at times result in a cascading effect where an item may be taxed twice. For instance, food and beverage that are subject to sales tax, if sold again, by a licensee such as an operator of a hotel or restaurant, are taxed a further 6% in the form of service tax. The service tax is therefore imposed on items that have already been taxed under the sales tax regime.

- **Cascading effect in the same tax regime**

Cascading can also take place within the same tax regime. For example, a service tax licensee needs to pay service tax on his inputs such as telecommunications, accounting, legal and consultancy services. The tax paid on these services will be built into the final price. When the licensee provides services to his customers, a service tax is again imposed on the selling price. Thus, service tax is imposed on components that have been previously taxed.

- **Pyramiding effect**

Although sales tax is charged at the manufacturer's level only, it often creates a 'pyramiding effect' where the percentage mark-up along the distribution chain is often applied to the tax element and the cost of product sold. For example, a distributor who buys a certain good from a manufacturer at RM100 plus a sales tax of RM10 (a total of RM110), would normally add his profit margin to RM110, and not on the outlay which is RM100. Thus, failure to distinguish between the cost of product sold and the tax element in the price often benefits traders at the expense of government revenue and the final consumer.

- **Transfer pricing and vertical integration**

The sales tax regime currently discourages further development of local industry from engaging in forward integration. For instance, certain marketing functions are outsourced to a related

subsidiary so as to pay sales tax at a lower value. Although the Sales Tax Act 1972 provides for determination of sales value at an 'arm's length price', the practicability of ascertaining such value, which is both equitable and feasible is a difficult task. A considerable time is needed to establish the taxable value of the goods or services under those circumstances.

▪ **No complete relief for exports**

Although exports are not taxed, the exported items are not completely free of taxes which have been incorporated along the distribution chain. Presently there is no mechanism to relieve exports of such hidden taxes. Hence, our exports become more expensive, and therefore, less competitive in the international market. Under the GST regime, such taxes can be fully identified and are eligible for rebates as all exports would be zero-rated.

▪ **Bureaucratic red tape for tax free materials**

Approval is required to acquire tax free materials for inputs. Special approval is also required from the Ministry of Finance for 'tax exemption' on capital goods. Upon approval, the company is subject to regular audits to ensure the approval is not abused. This adds cost not only to the businesses but also to the Government. However, such approvals are not necessary under the GST as it is self-policing. Taxable persons may offset any input tax incurred against his output tax liability.

▪ **Classification issues in the sales tax regime**

Since sales tax is only imposed on certain items, the classification of the taxable status of an item often gives rise to compliance problems. The onus rests on the manufacturer to know the taxable status of his output. He is often penalised for failing to factor in the tax element if such goods are in fact taxable. The need to categorise products and services into taxable and non-taxable often adds to administrative cost for industry. This situation will not arise under the GST as most goods and services would be taxable.

Rationale to Introduce GST

The Government's move to introduce GST is aimed at streamlining the present tax structure to make it more efficient, effective, transparent and business friendly. GST will simplify the current consumption tax system by improving equity, reducing the number of separate taxes while broadening the revenue base.

Benefits of the GST

The proposed model is expected to benefit all segments of the society as follows:

▪ **Consumers**

- Fair and more transparent as the consumer sees the tax paid in the transaction;
- Distributes tax burden among a larger section of the population;
- Leads to reduction in cost of goods and services as businesses can claim input tax credits from the Government; and
- Encourages prudent spending since it is a consumption tax.

▪ **Private sector**

- Transparent and a neutral tax system as competing forms of economic activity are taxed in the same way;
- Export of goods and services will be zero-rated, making local products and services more competitive in global markets;
- Encourages tourism as tourists would be entitled to a tax refund on goods and services purchased from participating retailers through the Tourist Refund Scheme;
- Self-enforcing tax system, making avoidance difficult due to input tax crediting mechanism; and
- Compliance cost to administer GST is lower due to a streamlined tax system.

- **Government**

- Affords a more stable, predictable and efficient source of revenue as it is based on consumption;
- Promotes overall tax compliance as well as brings in the informal sector into the tax net; and
- Increases tax collection as the revenue grows in tandem with economic growth.

- **Economy**

- Capital formation is not affected as businesses can claim input tax;
- Enhances competitiveness as it reduces cost of doing business; and
- Attracts more foreign direct investment (FDI).

Features of the Proposed GST Model

In formulating the GST model for Malaysia, the Government has taken several measures to make it less regressive. It will reduce the tax burden on the rakyat, especially the lower income groups through the following mechanisms:

- **Zero-rated supplies**

Items that will be zero-rated are as follows:

- Essential food items such as rice, sugar, meat, fish, chicken, vegetables, flour, cooking oil, and eggs will be zero-rated. In addition, monthly electricity consumption for domestic users up to 200 kWh and water consumption will also be zero-rated;
- Livestock supplies such as cows, goats, poultry and swine; and
- Exports of goods and services to make them more competitive abroad.

- **Exempt supplies**

- To reduce the tax burden on the general populace, the Government also proposes to exempt GST for public transport, private education services, financial services and life insurance, private healthcare, land for agricultural, residential and other general use such as burial grounds; and
- No GST on Government services, state or federal.

- **Standard-rated supplies**

- Taxable supplies of goods and services will be subject to a standard rate. Businesses are eligible to claim input tax credit on business inputs; and
- A threshold of RM500,000 in annual sales for the purpose of registration has been proposed, thus excluding small businesses from collecting GST.

Initiatives to Implement the GST

The Government has taken steps to ensure a smooth and orderly implementation of the GST as follows:

- Through the Price Control and Anti-Profiteering Act 2011, the Ministry of Domestic Trade, Co-operatives and Consumerism (KPDNKK) will be able to monitor and enforce actions against profiteering;
- Fair trade practices will be enforced through the Competition Act 2010 which came into force on 1 January 2012;
- Publish a shoppers' guide list which covers about 944 items in the Consumer Price Index (CPI) basket to create greater awareness on prices before and after the implementation of GST;

- The Ministry of Finance and Royal Malaysian Customs Department (JKDM) are actively involved in organising nationwide seminars, workshops and roadshows to create greater awareness on GST among professional groups, Government agencies, business communities, consumer groups and non-government organisations (NGOs). To-date, more than 4,600 awareness programmes involving 200,000 participants have been conducted nationwide together with other agencies, trade associations and NGOs;
- Publicity campaigns will be undertaken through the media to disseminate information on the workings and benefits of GST to businesses and the public;
- SMEs will be assisted through intensive training programmes and advisory services; and
- The JKDM will be further strengthened through training, recruitment of additional staff and provision of information technology equipment for the smooth implementation of GST.

Conclusion

Through the GST, the shortcomings of sales and service tax will be addressed. The GST will be more socially equitable and economically efficient as it will be levied on consumption, not investment or profits of businesses. Furthermore, GST will broaden the tax base, enhance compliance and increase revenue collection for the Government. Most importantly, it will protect the welfare of low-income and vulnerable groups as well as promote prudent spending among the rakyat.

the tax net through skills enhancement of its personnel; intensive use of IT; reducing regulatory burden; as well as improving tax management, service delivery and resource utilisation.

Receipts from **indirect tax** are expected to increase 5.1% to RM36.5 billion, contributing 16.6% to total revenue (2012: 6.3%; RM34.7 billion; 16.7%) spurred by low inflation as well as strong business and consumption activities. Excise duties on imported and locally manufactured goods, the largest source of indirect tax, are anticipated to expand 4.4% to RM12.7 billion (2012: 5.8%; RM12.2 billion) on account of resilient demand for motor vehicles, including commercial vehicles, cigarettes and liquor. Likewise, receipts from sales and service tax are expected to be higher at RM10.2 billion and RM6.2 billion, respectively reflecting sustained expansion in domestic economic activity.

Weak external demand for commodities such as crude petroleum and crude palm oil (CPO) will see revenues from export duties remaining flat at RM2.1 billion. Crude petroleum is the largest contributor to export duties. Similarly, levy collection on CPO, goods vehicles and electricity are anticipated to continue declining

sharply by 72.8% to RM150 million (2012: -40%; RM552 million) due to moderating CPO prices since 2011. CPO is the main component in levy receipts. The threshold price for the imposition of the levy remains at RM2,500 per tonne in Peninsular Malaysia and RM3,000 per tonne in Sabah and Sarawak. For the first nine months of the year, CPO traded at an average of RM2,331 per tonne (2012: RM2,866 per tonne). As at 11 October 2013, the price of CPO was RM2,367 per tonne. Meanwhile, import duties are expected to be stable at RM2.4 billion in line with Malaysia's progressive commitments on liberalisation of tariffs under the World Trade Organisation (WTO), ASEAN Free Trade Area (AFTA) as well as various bilateral trade agreements.

Non-tax revenue, accounting for 25.8% of total revenue, is expected to be firm at RM56.9 billion (2012: 27.1%; RM56.3 billion) in tandem with resilient expansion in private sector activity. The main sources of non-tax revenue are dividend income, mainly from Petroliaam Nasional Berhad (PETRONAS) at RM27 billion as well as licences and permits (RM13.5 billion). Other sources of revenue include proceeds from securitisation of Government employees' housing loans (RM4.2 billion) as well as dividend income from

BNM (RM1.5 billion) and Khazanah Nasional Berhad (Khazanah) at RM850 million. Petroleum royalties and road tax, the major components of licenses and permits, are expected to contribute RM8.5 billion.

Other sources of non-tax revenue include proceeds from the production of O&G under the Malaysia-Thailand Joint Authority (MTJA) at RM1.9 billion; fines and penalties (RM1 billion) as well as monetisation of Government assets (RM1.4 billion). Although the Government is expected to realise substantial value from the optimal use of public assets, the primary intent is to spur greater private sector involvement and 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 substantially higher at RM2.5 billion (2012: RM1.4 billion) buoyed by positive business and consumer spending. 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

Slower growth in expenditure

The Federal Government total expenditure in 2013 is estimated at RM261.3 billion, an increase of 4.6% over the original budget. Of this, RM216.2 billion is allocated for operating expenditure with the balance, RM45.1 billion for development expenditure.

Operating expenditure is expected to grow at the slowest pace since 2010, at 5.2% to RM216.2 billion (2012: 12.6%; RM205.5 billion) despite additional commitments assumed during the year amounting to RM15 billion. Measures in place to ensure spending remains purposeful are not expected to affect quality of service delivery. The allocation for reform initiatives under the National Key Result Areas (NKRAs)

TABLE 4.3

Federal Government Operating Expenditure by Object 2012 – 2014

	RM million			Change (%)			Share (%)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Emoluments	60,016	61,625	63,610	19.7	2.7	3.2	29.2	28.5	29.2
Debt service charges	19,537	22,245	23,186	10.3	13.9	4.2	9.5	10.3	10.7
Grants to state governments	5,690	6,276	6,697	2.8	10.3	6.7	2.8	2.9	3.1
Pensions and gratuities	14,079	14,397	15,667	3.8	2.3	8.8	6.8	6.7	7.2
Supplies and services	31,963	34,661	36,623	10.4	8.4	5.7	15.6	16.0	16.8
Subsidies	44,075	46,698	39,408	21.6	6.0	-15.6	21.4	21.6	18.1
Grants to statutory bodies ³	15,971	14,659	16,281	16.0	-8.2	11.1	7.8	6.8	7.5
Refunds and write-off	1,292	1,109	1,358	28.1	-14.2	22.5	0.6	0.5	0.6
Others	12,913	14,514	14,822	-17.5	12.4	2.1	6.3	6.7	6.8
Total	205,537	216,184	217,651	12.6	5.2	0.7	100.0	100.0	100.0
% of GDP	21.8	21.9	20.6						

¹ Revised estimate.

² Budget estimate.

³ Includes emoluments.

Note: Total may not add up due to rounding.

Update on Cash Assistance Programmes

The cash assistance programmes introduced in 2012 to ease the burden of vulnerable groups were further expanded under the 2013 Budget as follows:

- *Bantuan Rakyat 1Malaysia* (BR1M 2.0) of RM500 per household with monthly household income of RM3,000 or less;
- BR1M 2.0 of RM250 was extended to include single individuals aged 21 and above, and earning less than RM2,000 a month;
- Assistance of RM100 per student for all primary and secondary students;
- Value of book vouchers for all students at pre-university level as well as in local public and private institutions of higher learning was increased from RM200 to RM250; and
- Assistance of RM1,000 to former members of the armed forces who had opted for early retirement, served less than 21 years and did not receive any pension. The cash payment was to be equally shared by the Government and Armed Forces Fund Board.

As of 16 October 2013, about RM4 billion had been disbursed to targeted groups to assist them cope with the rising cost of living.

at RM1.5 billion, National Key Economic Areas (NKEAs) at RM234 million and Strategic Reform Initiatives (SRIs) at RM24 million will also not be compromised.

Expenditure on **emoluments** remains the largest component at 28.5% of operating expenditure or RM61.6 billion (2012: 29.2%; RM60 billion). The allocation includes provision for a salary increment for 1.4 million civil servants; one-off special cash assistance of RM500 to certain categories of civil servants; improvements in the Armed Forces scheme of service; special incentive of RM200 monthly for more than 125,700 military personnel; and a revision in services allowance for more than 65,000 personnel in the military reserve force of the army, navy and air force.

Subsidies encompass various subsidies (RM35.2 billion), incentives (RM874 million) and social assistance programmes (RM10.7 billion). Among them are subsidies for fuel, sugar, cooking oil, price stabilisation schemes, incentives to increase food production as well as educational assistance and social welfare

programmes to improve the lives of the rakyat. As the second largest component of operating expenditure (21.6%), subsidies are expected to remain high at RM46.7 billion or 4.7% of GDP (2012: 21.4%; RM44.1 billion; 4.7%), despite the resumption in fuel and sugar subsidy rationalisation.

Allocation for *fuel subsidy*, including cash transfers, will be higher at RM28.9 billion in 2013 (2012: RM27.9 billion) as the price of refined petroleum and diesel products have remained firm, averaging USD122 pb in the first nine months of the year (2012: USD126 pb). As part of a measured approach to optimise resource allocation as well as to reduce market distortions, smuggling activities and the fiscal burden on the Government, the subsidy on petrol and diesel was reduced by 20 sen effective 3 September 2013. The widely used RON95 currently retails at RM2.10 per litre, while diesel, at RM2.00 per litre. Estimated savings from the fuel subsidy rationalisation is about RM1.1 billion. RON97, the premium grade petrol which is on a managed float, is not subsidised. However,

the price of RON97 was revised upwards by 15 sen from RM2.70 to RM2.85 per litre effective 5 September 2013 reflecting price movements in the international market.

Enforcement has been intensified to monitor food prices and curb the rampant abuse of fuel subsidies as the prices of RON95 and diesel are still among the cheapest in the region. Petrol stations in border areas are required to close operations by 10 pm to minimise smuggling of subsidised fuel across the border. Further, the sale of diesel is limited to 20 litres per vehicle from any station within a 50 km radius from the point of entry into the country. There is no restriction on the sale of the premium grade RON97 to foreigners, but Malaysians using foreign-registered vehicles are not eligible for the subsidised RON95 and natural gas.

Cash transfers, incentive payments and book vouchers continue to be given to targeted groups to mitigate the impact of higher cost of living. They are estimated to cost RM4.1 billion in 2013. Subsidies to alleviate the financial burden of the rakyat include allocations to stabilise the price of cooking oil (RM1.5 billion); toll compensation (RM587 million); flour (RM185 million); provision of comprehensive rural air and rail services (RM179 million) as well as rebate for households consuming electricity below RM20 per month (RM150 million). To promote a healthy lifestyle, the subsidy on sugar was reduced by 20 sen per kilogramme, effective 29 September 2012. Though the retail price of sugar has increased to RM2.50 per kilogramme, the Government still provides a subsidy of about 40 sen as of 16 October 2013. Subsidies for interest rate differential amounting to RM1.7 billion will be provided, among others, for higher education student loans, microcredit schemes, public transport, intellectual property and high-tech manufacturing. Small and medium enterprises (SMEs) also benefit from the lower cost of borrowing to further accelerate business activity as well as for their revitalisation, commercialisation and innovation programmes.

In 2013, a sum of RM1.9 billion has been set aside for subsidies (RM1 billion) and incentives (RM874 million) for farmers, fishermen and livestock entrepreneurs to implement programmes to boost food production. The measures are designed to promote food self-sufficiency, improve productivity in the food sector as well as maintain price stability of essential food items. Initiatives include price subsidy for paddy, fertilisers, and paddy seeds as well as incentives to increase paddy yield. Fishermen are given incentives to improve fish landing at licensed jetties nationwide. Presently, a monthly allowance of RM200 is given to more than 52,000 registered fishermen while an incentive of up to 20 sen is given for every kilogramme of fish landed. The livelihood of fishermen is further safeguarded through a takaful protection scheme in the event of a disaster or accident.

Social assistance programmes are allocated RM10.7 billion. The first component amounting to RM4.7 billion comprises scholarships at all levels of education, including for professional career development in the civil service and financial assistance to trainees at skills training centres. Allocation is also provided for various educational assistance (RM2.3 billion) such as nutrition programmes, textbook aid as well as contribution to Kumpulan Wang Amanah Pelajar Miskin (KWAPM).

The second component of social assistance programmes includes various forms of financial assistance extended to improve the quality of life of the poor, senior citizens, disabled and other vulnerable groups (RM3.6 billion). The sum includes RM339 million provided under the NKRA for low-income households designed to reduce poverty. Programmes include support to increase home ownership; as well as income-generating activities to provide sustainable incomes and enhance productivity of the poor. Meanwhile, RM44 million is provided to improve the standard of living of the orang asli to ensure they reap the benefits of development. Initiatives include nutritional, educational and

National Blue Ocean Strategy

What is *National Blue Ocean Strategy*?

- Adapted and tailor-made for the civil service, the National Blue Ocean Strategy (NBOS) draws inspiration and lessons from the business strategy book published by Professor W. Chan Kim and Renée Mauborgne in 2005.
- The Blue Ocean Strategy essentially calls for a systematic approach in business to create new demand or market boundaries (blue oceans) by making competition irrelevant and redundant.
- Boldly introduced into the civil service by the Prime Minister Dato' Sri Mohd Najib Tun Abdul Razak in 2009, the NBOS advocates thinking "out of the box" to implement projects and programmes as well as addressing issues confronting the economy.
- As Malaysia aspires to be a high income and developed country by 2020, the civil service has to transform and utilise new approaches to ensure that the national vision is realised. The NBOS therefore complements existing transformation initiatives to expedite the development agenda while enhancing the well-being of the rakyat.
- Through a creative, innovative and more collaborative approach, programmes can be executed expeditiously, in a most cost-effective manner, giving maximum benefit to the rakyat. Although collaboration among Government agencies is common, the NBOS advances these partnerships further, requiring stakeholders to optimise their respective resources to achieve better shared outcomes.
- The private sector and civil society are also actively engaged when formulating policies or drawing up programmes for the rakyat. In essence, the NBOS can therefore be summed up as follows: low cost; high impact; rapid implementation; and sustainability of programme.
- To date, about 55 initiatives involving more than 80 Government agencies have been implemented using the NBOS concept. The programmes have benefitted the rakyat, touching their lives at a more personal level.

Physical Set-up

- The implementation of the NBOS comes under the purview of the National Strategy Unit (NSU) in the Ministry of Finance, which also oversees the smooth functioning of the urban and rural transformation centres (UTCs and RTCs). The UTCs and RTCs are a NBOS-inspired initiative.
- NBOS stakeholders meet weekly to deliberate on the progress of initiatives implemented. The meeting format promotes quick resolution of problems and rapid execution of programmes. While weekly meetings are chaired by the Chief Secretary to the Government, Professor W. Chan Kim participates regularly to offer fresh perspectives in his capacity as the Country Advisor. The Prime Minister convenes the NBOS summit at least twice a year.

On-going NBOS Initiatives

Urban Transformation Centres

- UTCs were established to bring public services to the rakyat under one roof. Under-utilised buildings were identified and transformed to house a variety of services from the public and private sectors, such as the National Registration Department, Immigration Department and Pos Malaysia.

- Offering services even after normal office hours and on weekends, the UTCs are popular with urbanites as they are able to undertake various transactions physically in one building. Further, there are also sports and social activities in the UTCs. There are currently 5 UTCs in Melaka, Kedah, Pahang, Kuala Lumpur and Perak as well as a mini UTC in Sentul. Another UTC in Sabah will be completed by December 2013.

Rural Transformation Centre

- The RTCs were established to transform the rural economy by connecting them with high value-added economic activities. This is to bridge the development gap between urban and rural communities.
- RTCs integrate various services in one place. Services offered include the collection, processing and distribution of agricultural products, banking, and healthcare services. The initiative encourages active collaboration with the business community where farmers can market their products to a wider network at lower cost.
- RTCs have been established in Perak, Kelantan, Melaka and Pahang, while more are being planned for Kedah, Johor, Sabah, Sarawak and Terengganu.

Collaboration between Military and Police to Fight Crime

- To optimise resource utilisation and minimise costs, military facilities are used to train new police officers while retired military personnel have been recruited into the police force to fight crime. Joint patrols between the police and the military are carried out to enhance security in hot spot crime areas. More than 100,000 security personnel have been deployed to provide a safe environment for the rakyat to live, work and play.

1Malaysia For Youth

- Through this initiative, youth are mobilised to play a more active role in nation building through volunteerism. The 1Malaysia for Youth (1M4U) programme has attracted more than 70,000 volunteers and a sum of RM100 million has been set aside as “seed money” for youths to undertake various community-based voluntary projects.

My Beautiful Malaysia

- To kick-start 2013 as the Year of Volunteerism, the nationwide My Beautiful Malaysia (MBM) programme was launched by the Prime Minister on 3 February 2013. More than a million youths participated in cleaning and beautifying activities at about 390 areas, earning MBM a spot in the Malaysia Book of Records for the “Largest Simultaneous Participation in a Volunteerism Programme.”

1Malaysia Family Care

- 1Malaysia Family Care (1MFC) provides holistic health and social support to the elderly, disabled and single mothers through inter-agency networking, sharing of resources and encouraging volunteerism. Among the services provided under 1MFC are volunteer programmes at old folks homes which include dental care for the elderly and disabled, and health screening for single mothers. These programmes have benefited more than 40,000 people.

My Beautiful Neighbourhood

- The My Beautiful Neighbourhood (MyBN) programme mobilised resources across Federal and state governments to maintain and beautify public facilities in local neighbourhoods. The maintenance of infrastructure and beautification of housing projects was done together with

residents, giving them a sense of ownership and responsibility over their common areas. To date, more than 20 public housing projects have participated in the initiative, benefiting about 74,000 residents.

1Malaysia EnTrepeneurs

- The latest initiative under the NBOS is the 1Malaysia EnTrepeneurs (1MeT) in which the NSU has been tasked to formulate and coordinate the National Entrepreneurship Development initiatives. The programme is expected to enable entrepreneurs to start and grow their own businesses by leveraging public and private sector resources.

National Blue Ocean Strategy Initiatives

No.	Initiative	Agency
NBOS 1	Redeploy civil servants to perform administrative tasks at PDRM	Royal Malaysia Police (PDRM)/ Public Service Department (JPA)
NBOS 2	Training of police personnel using military facilities Joint patrols by the military and police	PDRM/ Malaysian Armed Forces (ATM)
	Recruitment of veterans by PDRM Increase police presence through community policing	PDRM
	Community Rehabilitation Programme (CRP)	Ministry of Home Affairs (KDN)/ ATM
NBOS 3	Building rural basic infrastructure (housing and water supply)	Ministry of Rural and Regional Development (KKLW)/ ATM
	Engaging rural labour for high value-added economic activities on unused government lands	Ministry of Agriculture and Agro-Based Industry (MOA)
NBOS 4	Establish RTC in Perak	KKLW/ MOA
NBOS 5	Expansion of RTCs, mini-RTCs Converting <i>Jawatankuasa Kemajuan dan Keselamatan Kampung</i> (JKKK) into rural transformation agents	KKLW/ MOA
NBOS 6	UTC/ NSU	Ministry of Finance (MOF)
	1Malaysia Privilege Card	Ministry of Domestic Trade, Co-operative and Consumerism (KPDNKK)
	Mobile KR1M	KPDNKK
	1Malaysia Skills and Employability Programme	Economic Planning Unit (EPU)
	1Malaysia Family First 1Malaysia Youth Empowerment and Support	Ministry of Women, Family and Community Development (KPWKM)
	Micro-PPPs and developing longhouse home-stay programmes using micro-PPPs	Public Private Partnership Unit (UKAS)
	Organising health fairs in Sabah and Sarawak	Ministry of Health (MOH)
	My Kampung, My Future	MOA

No.	Initiative	Agency
NBOS 7	My Beautiful Neighbourhood	Ministry of Urban Wellbeing, Housing and Local Government (KPKT)/ KDN/ ATM
	1Malaysia Family Care	MOH/ KPWK
	1Malaysia Veterans Recognition Programme	Ministry of Defence (MINDEF)
	Voluntourism	Ministry of Tourism and Culture (MOTAC)
	1Malaysia Women's Initiative for Self-Empowerment 1Malaysia Support for Housewives	KPWKM/ Ministry of Human Resource (MOHR)
	1Malaysia Hawkers Programme	KPDNKK
	1M4U/ 1M4U Blue Ocean Competition	1M4U
	1M4U Outreach Centres	Ministry of Education (MOE)
	1Malaysia One Call Centre (1MOCC) 1Malaysia Training Centres	Malaysian Administrative Modernisation and Management Planning Unit (MAMPU)
NBOS 8	Second Wave of Blue Ocean Policing: 1AMAN Campaign Uniformed Policing 2	KDN/ ATM
	Greater collaboration between PDRM and ATM	ATM/ PDRM
	1Malaysia Komuniti Perwani 1Malaysia Women's Initiative for Self-Empowerment 1Malaysia Support for Housewives	KPWKM/ MOHR
	Military Community Transformation Centres (MCTCs)	ATM
	University Community Transformation Centres (UCTCs) 1M4U Outreach Centres	MOE
	Mobile Community Transformation Centres (Mobile CTCs)	MOF
	Redeploy teachers, doctors and nurses performing administrative tasks to their core duties	MOE/ MOH/ JPA
NBOS 9	1Malaysia EnTrepeneurs (1MeT)	MOF
	Infuse NBOS spirit in 10MP projects	EPU

welfare programmes; scholarships to institutions of higher learning; and agriculture inputs to increase incomes.

Supplies and services, constituting 16% of operating expenditure, are envisaged to register a smaller growth of 8.4% to RM34.7 billion (2012: 15.6%; 10.4%; RM32 billion) in consonance with administrative measures to trim discretionary spending. 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. Several administrative measures have been implemented to inculcate disciplined spending. They include maximising the use of government facilities for seminars, workshops and training programmes; active space management and adoption of open office concept to reduce

rentals and renovations in offices; efficient use of electricity; and reducing other overhead costs. Overseas travel is scrutinised to ensure attendance is relevant and limited to important meetings only.

Grants to statutory bodies, which are mainly emoluments as well as supplies and services, are anticipated to decline 8.2% to RM14.7 billion (2012: 16%; RM16 billion). Statutory bodies are encouraged to internally generate more revenue from their own resources. The 21 public institutions of higher learning (IPTAs) and three teaching hospitals, Majlis Amanah Rakyat (MARA) and IRB account for the largest share of the expenditure at 81%. Other recipients include Malaysian Agricultural Research and Development Institute (MARDI), Malaysia Tourism Promotion Board (MTPB) and Rubber Industry Smallholders Development Authority (RISDA).

Debt service charges, at RM22.2 billion or 10.3% of operating expenditure, remain low and manageable (2012: RM19.5 billion; 9.5%). As a mandated item, debt service charges have to be paid ahead of other commitments. Meanwhile, RM14.4 billion or 6.7% of operating expenditure is set aside for **pension and gratuities**. It includes the revision in minimum pension payments from RM720 to RM820 for pensioners who have served at least 25 years effective 1 January 2012 as well the special cash assistance of RM250 paid to 660,000 Government pensioners in July 2013. **Grants to state governments** are expected to be stable at RM6.3 billion while expenditure on **asset acquisition** is expected to contract substantially by 37.6% to RM1.1 billion (2012: -33.6%; RM1.8 billion) in consonance with concerted initiatives, such as the NBOS, which promote optimal resource utilisation within, and across government agencies.

TABLE 4.4

Federal Government Development Expenditure by Sector 2012 – 2014

	RM million			Change (%)			Share (%)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Economic services	28,936	27,865	28,843	2.8	-3.7	3.5	61.7	61.8	64.8
of which:									
Agriculture and rural development	1,906	3,233	3,105	69.0	69.6	-4.0	4.1	7.2	7.0
Trade and industry	5,043	7,032	5,830	-39.7	39.4	-17.1	10.7	15.6	13.1
Transport	10,065	8,684	8,672	-0.7	-13.7	-0.1	21.4	19.3	19.5
Social services	12,399	10,922	10,577	-1.6	-11.9	-3.2	26.4	24.2	23.8
of which:									
Education and training	7,550	6,466	4,895	-2.4	-14.4	-24.3	16.1	14.3	11.0
Health	1,864	1,777	1,707	-15.5	-4.7	-3.9	4.0	3.9	3.8
Housing	524	643	1,047	-31.2	22.7	62.7	1.1	1.4	2.4
Security	4,409	4,574	3,969	-3.5	3.7	-13.2	9.4	10.1	8.9
General administration	1,187	1,705	1,110	9.4	43.6	-34.9	2.5	3.8	2.5
Total	46,932	45,065	44,500	1.1	-4.0	-1.3	100.0	100.0	100.0
% of GDP	5.0	4.6	4.2						

¹ Revised estimate.

² Budget estimate.

Note: Total may not add up due to rounding.

Development expenditure estimated at RM45.1 billion in 2013 (2012: RM46.9 billion), is the lowest since 2008. It takes into account spending capacity of ministries and agencies as well as the physical progress of projects under implementation. The sum includes funds for the implementation of reform initiatives under the seven NKRAs (RM3.9 billion), 12 NKEAs (RM3 billion), and SRIs (RM127 million) as well as for ongoing projects under the rolling plans, including the third rolling plan (RP) which runs from 2013 till 2014. In addition, RM2 billion is set aside under the Facilitation Fund to implement projects of strategic value and high-multiplier impact. In terms of sectoral allocation, economic services remain the largest recipient at 61.8% followed by social services (24.2%), security (10.1%) and general administration (3.8%).

About 62% of the 7,873 physical projects under the various RPs have been completed while 2,849 projects are under various stages of implementation. The 10th Malaysia Plan (10MP) comprises about 78% physical projects, while the rest include various programmes as well as funds and grants for strategic purposes; feasibility studies; human capital development; as well as information and communication technology (ICT).

The **economic services sector** is allocated RM27.9 billion in 2013 (2012: RM28.9 billion) consistent with initiatives to enhance competitiveness and productive capacity of the economy. Of this, the *transport subsector* is given the largest sum at RM8.7 billion or 19.3% (2012: RM10.1 billion; 21.4%) mainly to finance the construction, maintenance and upgrading of roads, bridges, railways, airports, ports, jetties and rural infrastructure. Under the NKRA on improving rural basic infrastructure (RBI) (RM3.3 billion), priority is given to improving rural and village roads nationwide, particularly in Sabah and Sarawak. This will stimulate economic activity in rural areas and facilitate marketing of the produce to urban centres. Ongoing projects in the subsector include the upgrading of several major roads including the access road to Samalaju Industrial Park (Sarawak); Bayan Lepas Expressway from Batu Maung to the Second Penang Bridge; Central

Spine Federal Road between Kuala Lipis – Gua Musang; Rawang Bypass and Pan-Borneo Highway. The allocation for rail projects amounts to RM3.2 billion. Railroad projects under construction are the electrified double-tracking projects between Ipoh – Padang Besar and Seremban – Gemas; extension work on the express rail link (ERL) from Kuala Lumpur International Airport (KLIA) to KLIA2; and upgrading of rail, signals and communication infrastructure as well as commuter facilities under the Klang Valley Double-Tracking Project. New projects for the year include the construction of the Keretapi Tanah Melayu Berhad (KTMB) Komuter line from Subang Jaya – Sungai Buloh (Phase 1) and Gemas – Johor Bahru electrified double-tracking projects.

A sum of RM407 million is also allocated for the NKRA on urban public transport (UPT) which aims to provide a reliable, efficient and integrated public transport system to ease traffic congestion in urban areas. The automated fare collection (AFC) system will be extended to KTMB Komuter to facilitate seamless travel. Currently, the AFC system has been installed in the light rail transit (LRT), ERL, KL Monorail, and RapidKL buses. Other projects include building and upgrading of park-and-ride facilities and enhancing the Greater Kuala Lumpur/ Klang Valley (Greater KL/KV) stage bus network. Passenger safety and security at public transport stations will be enhanced through improved surveillance and enforcement. Meanwhile, the free Go-KL City Bus service, launched in August 2012, will be extended to include two new routes, the Red Route (Titiwangsa – KL Sentral) and Blue Route (Titiwangsa – Pasar Seni). The service was introduced to ease traffic gridlock and reduce transport cost within the city. Construction work on the MY Rapid Transit (MRT) project has progressed as planned. The first phase from Sungai Buloh to Semantan is expected to be operational by end-December 2016, while the second phase to Kajang, completed by June 2017.

The *public utilities, energy and communications subsectors* will account for 8.6% or RM3.9 billion of total development expenditure (2012: 12.7%; RM6 billion). The allocation includes projects

under the NKRA for the improvement of RBI, particularly in Sabah and Sarawak. The quality of life in rural and urban areas, including estates nationwide will also be improved through the provision of uninterrupted water and electricity supply, as well as telecommunication facilities and sewerage services. Meanwhile, the implementation of broadband services (RM200 million) will be expanded through the provision of core networks in low populated and urban areas taking into account stakeholder requirements such as hospitals, schools, government agencies, businesses and local communities.

The trade and industry subsector is allocated RM7 billion or 15.6% of total development expenditure in 2013. Major development programmes include upgrading infrastructure facilities in industrial areas, funding of strategic investments, skills and entrepreneur development as well as the vendor development programme for the automotive sector. Emphasis will be on SMEs to improve their competitiveness amid the increasingly liberalised environment in line with obligations under bilateral and regional trade agreements. SMEs comprise 97% of all establishments and employ 60% of the workforce. Their contribution to GDP has been steadily increasing, amounting to RM305 billion in 2012 (2011: RM288.7 billion). The SME Masterplan (2012-2020) aims to increase GDP contribution of SMEs from the current 32.7% to 41% of GDP by 2020. Given their deep linkages and impact on the economy, the Government will continue to facilitate access to financing, technical and advisory services on product development, marketing, skills and technology enhancement. SME Corporation Malaysia (SME Corp) will be allocated RM150 million for soft loans and various capacity building programmes. Allocation is also provided for the promotion, development and marketing of halal products (RM20 million). Meanwhile, 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. Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN Nasional) will

be given RM180 million for micro financing and support services to promote entrepreneurial development.

Corridor development will be expedited with an allocation of RM1.3 billion for comprehensive infrastructure development as well as special projects in the five regional growth corridors. The corridor projects will provide ample opportunities for new investments, create jobs, encourage transfer of skills and technology as well as nurture the development of local industries and entrepreneurial skills. Corridor projects include the development of Kuala Terengganu City Centre and Malaysia-China Kuantan Industrial Park (MCKIP); water treatment supply project in Mukah (Sarawak); roadworks in Labuk and palm oil industrial cluster project in Lahad Datu (Sabah); and construction of affordable homes in Southern Johor.

Meanwhile, the *finance subsector* is given RM2.7 billion, with the Facilitation Fund, which is under the purview of the Public-Private Partnership Unit (UKAS), allocated the largest sum. Disbursements are essentially to ensure viability of private sector-led projects of strategic value and significant multiplier effect. Major projects include the International Maritime Gateway and the Plasma Gasification Plant for the disposal of clinical waste in Negeri Sembilan, as well as the Solar Photovoltaic Power Plant in Melaka.

Another method of project implementation is the public-private partnership (PPP) which is used for tolled roads, power plants, ports, airports, urban transport, health and education. Projects under the PPP initiative include the development of government buildings in Petaling Jaya; mixed development projects in Damansara, Jinjang Selatan, and Sri Hartamas; as well as building of a waste to energy incinerator in Jinjang.

The *tourism subsector* is given RM414 million to improve tourism-related facilities and amenities, undertake intensive promotional activities at home and abroad as well as strengthen niche tourism products such as agro-tourism, art tourism and spa tourism. Existing programmes

such as health tourism, ecotourism, edu-tourism as well as homestay programmes and Malaysia My Second Home (MM2H) will be further strengthened. The MM2H programme, which is especially popular among the Chinese, Japanese, Bangladeshis, British and Singaporeans, is expected to attract more than 3,600 participants in 2013, bringing the total number of participants to more than 22,000 since its inception in 2002. A sum of RM56 million will be channelled towards the redevelopment of Langkawi Island under the Five-Year Tourism Development Master Plan (2012). The project is expected to spur tourism activities in the untapped northern region of the country. Intensive promotional efforts are also underway to attract more tourists for the Visit Malaysia Year (VMY) 2014 through an allocation of RM125 million. Tourist receipts in 2013 are estimated at RM65 billion from 26.8 million tourists.

Substantial allocation is given to modernise and commercialise the agriculture subsector as well as raise real incomes of farmers through sustainable methods of production. Towards this, the *agriculture and rural development subsector* is allocated RM3.2 billion or 7.2% of total development expenditure (2012: RM1.9 billion; 4.1%) to realise the objectives of the National Agrofood Policy (NAP) 2011-2020. Initiatives will be taken to improve productivity through the adoption of agricultural best practices and use of technology; promote self-sufficiency in food production and diversify crop production; strengthen business environment to attract private investment; and intensify commercialisation of research and development (R&D) output. Agriculture extension services and skills training will be improved to meet the challenges of a rapidly evolving sector (RM18 million). Meanwhile, intensive efforts are underway to encourage high-value agriculture activities, including breeding of swiftlet nests; ornamental fish; and shrimps as well as cultivation of seaweed; herbs and spices; and floriculture. Herbal cultivation parks have been established in Chegar Perah (Pahang) and Pasir Raja (Terengganu) to ensure steady supply of quality raw materials to meet the demand for

herbal supplements and remedies. The Muda Agricultural Development Authority (MADA) will continue to consolidate farm lands under the estate-farming method to enhance productivity, ensure long-term food security and increase incomes of paddy farmers. The estate farming approach is being replicated in other areas such as in Kota Belud (Sabah) and Batang Lupar (Sarawak).

Other projects in the subsector include the NKEA on agriculture, palm oil and rubber (RM1.5 billion), which among others, aims to accelerate replanting and new planting of oil palm and rubber, particularly in Sabah and Sarawak. While focus in the subsector is on building a diversified, modern and sustainable agriculture sector, the Government will continue to address pockets of poverty in many parts of the country. In this regard, poverty alleviation projects, especially in Sabah and Sarawak will focus on the provision of basic infrastructure, promoting income-generating activities such as livestock breeding; cultivation of fruits and vegetables; and contract farming.

Investment in human capital development is a key prerequisite to achieving the status of a developed and high-income economy. In this regard, the Malaysia Education Blueprint (2013-2025) unveiled in September 2013 calls for, among others, the up scaling of the education system; improving institutional capacity and capability; and greater involvement of parents and local community to meet the aspirations of a robust education system. The Government will ensure that every child, irrespective of socio-economic status, has equal access to quality education to realise his or her potential. Emphasis will also be given to lifelong learning to enhance quality, marketability and upward mobility of individuals. Hence, RM10.9 billion is set aside for the **social services sector**, with the *education and training subsector* receiving the largest share at RM6.5 billion or 14.3% of total development expenditure (2012: RM7.6 billion; 16.1%). Allocation is provided for infrastructure development, as well as maintenance and upgrading of equipment in universities, polytechnics, skills training centres as well as teacher training and community colleges.

Research, development and commercialisation (R&D&C) activities will also be intensified to improve visibility and international ranking; introduce new products and services; as well as promote an entrepreneurial culture.

Major ongoing projects involve the upgrading and expansion of several universities, including Universiti Teknologi MARA (UiTM), Universiti Malaya (UM), Universiti Islam Antarabangsa (UIA), Universiti Putra Malaysia (UPM), and Universiti Malaysia Terengganu (UMT). Industry requirements will be met through intensive skills training programmes at Advanced Technology Training Centres (ADTECs), polytechnics, skills training centres and community colleges. Projects in 2013 include the construction of five polytechnics in Johor, Penang and Sarawak and two community colleges in Penang and Sabah. Other projects in the pipeline include a skills training institute in Kelantan and Penang and upgrading of UniKL Malaysian Institute of Aviation Technology (Selangor). Substantial allocation will also be provided to strengthen pre-school (RM27 million), primary (RM312 million) and secondary education (RM900 million). New schools under construction include five primary and secondary schools in Putrajaya, Johor, Sarawak and Sabah. Malaysia is mindful that it has to compete for its own talent in this borderless world. In this regard, Talent Corporation Malaysia Berhad (TalentCorp), established in January 2011, continues to work with the Malaysian diaspora to contribute to nation building. It also engages extensively with industry and training institutions to address skills gap as well as nurture, retain and invest in skills within the country.

Provision of quality healthcare remains a priority for the Government. This is reflected in the substantial allocation provided for the *healthcare subsector* at RM1.8 billion or 3.9% (2012: RM1.9 billion; 4%) 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 as well as enhancing the hospital information and technology system and skills training.

Major ongoing projects include the construction, upgrading or expansion of hospitals in Kangar, Seberang Jaya, Kota Kinabalu and Tuaran. New projects underway include building hospitals in Rembau (Negeri Sembilan), Bera (Pahang) and Petra Jaya and Sri Aman (Sarawak). Access to rural health and dental care facilities will be improved to serve the rakyat in remote areas.

An allocation of RM643 million for the *housing subsector* will be utilised to build affordable homes for the poor, low and middle-income groups nationwide. A total of 45 projects involving 20,454 units of *Program Perumahan Rakyat* (PPR) will be implemented by Jabatan Perumahan Negara (JPN). Meanwhile, 9,578 units of *PPR Disewa* and 4,163 units of *PPR Dimiliki* are under construction, while another 3,080 units of *PPR Dimiliki* are to be built this year. 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 and popularity of such homes, the construction of public housing schemes will be accelerated while abandoned projects rehabilitated. Funds amounting to RM153 million are also provided for the maintenance and refurbishment of public and private low-cost housing projects to ensure a safe and conducive living environment. For the middle-income group, home ownership is facilitated through 1Malaysia People's Housing (PR1MA) to develop quality and affordable homes (RM200 million). Households with a monthly income of between RM2,500 and RM7,500 are eligible to register with PR1MA. As at end-September 2013, PR1MA Corporation approved 30 housing projects nationwide involving 38,757 units for middle-income earners.

The Government continues to provide substantial allocation to upgrade and enhance facilities and services at the *local level* (RM896 million) as well as for *community and rural development* (RM436 million). Spending is mainly for solid waste management; fire-fighting services; computerisation at local authorities; small projects and welfare services for the elderly and poor. Other projects

include the upgrading and building of parks and recreational facilities as well as rehabilitating rivers and flood mitigation projects. To reduce the income gap among rural communities, priority will be given to village rehabilitation schemes and programmes that promote education, skills training and income-generating activities. Programmes that promote self-reliance and nurture entrepreneurship and skills development among the rural and urban poor will be given priority (RM244 million). Real incomes of the hard-core poor in less developed and remote areas will be accelerated through several agropolitan projects under the *Skim Program Lonjakan Mega* (RM50 million) in Sarawak (Batang Sadung, Batang Lupar, Pulau Buit, Gunung Sadok and Nanga Sekau), Sabah (Pulau Banggi and Gana), Kedah (Sik), Perak (Ganda), and Pahang (Tanjung Gahai and Chemomoi). The projects involve, among others, planting of rubber and oil palm as well as other cash crops and aquaculture.

The *welfare services, national unity and orang asli subsector* is allocated RM286 million. A sum of RM116 million will be spent on improving welfare services for the poor, elderly and vulnerable groups while RM170 million provided to ensure the orang asli are in the mainstream of development through access to better roads; schools; uninterrupted water and electricity supply; and active involvement in income-generating activities. Meanwhile, RM383 million is also given to the *culture, youth and sports subsector* for various programmes and projects under the National Archives, Malaysian Handicraft Development Corporation, and the National Library as well as other arts and craft programmes. Focus is also on nurturing excellence in sports and youth leadership programmes as well as upgrading youth, sports and other recreational facilities.

Expenditure for the **security sector** is estimated at RM4.6 billion or 10.1% of total development expenditure (2012: RM4.4 billion; 9.4%). Of this, RM3.9 billion is for the *defence subsector*, while RM630 million for *internal security*. The allocation will be utilised to strengthen civil defence; build and refurbish facilities; purchase and upgrade

equipment; improve surveillance and enforcement; as well as enhance capacity and capability of uniformed personnel through skills training. Service delivery will also be improved in Immigration Department, National Registration Department and Prisons Department nationwide. In addition, RM125 million is provided under the NKRA to reduce crime. Initiatives include the enhancement of the Safe City programme; the establishment of the Command and Control Communication and Computer Integration system (C4I); implementation of Panic Button Smartphone application as well as leveraging police resources and local communities to eradicate “black-spot” areas.

General administration will expend RM1.7 billion (2012: RM1.2 billion) to further enhance quality of service delivery in the civil service. Concerted efforts will be made to ensure the civil service remains supportive of private sector activity while addressing concerns of the rakyat. Work processes will be constantly reviewed and the governance structure enhanced for greater clarity, execution and accountability. 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. The 1Malaysia One Call Centre (1MOCC), launched in November 2012 is a single point of contact for public queries, complaints and feedback through the telephone, short messaging service (SMS), fax, email and social media. Provision is also made 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.

Financing

Reliance on domestic sources of funding

Total gross borrowings of the Federal Government are projected to decline in 2013 mainly on account of lower deficit financing requirements. The high

TABLE 4.5

**Federal Government Financing
2012 – 2013**

	RM million		Share (%)	
	2012	2013 ¹	2012	2013 ¹
Gross borrowings	96,928	96,146	100.0	100.0
Domestic	96,244	95,738	99.3	99.6
Investment issues	42,000	42,000	43.3	43.7
Government securities	54,244	53,738	56.0	55.9
External	684	408	0.7	0.4
Market loans	0.0	0.0	0.0	0.0
Project loans	684	408	0.7	0.4
Repayments	53,597	55,844	100.0	100.0
Domestic	52,900	55,212	98.7	98.9
External	697	632	1.3	1.1
Net borrowings	43,331	40,302		
Domestic	43,344	40,526		
External	-13	-224		
Change in assets²	-1,380	-1,049		
Total	41,951	39,253		

¹ Estimate.² (-) indicates accumulation of assets.

Note: Total may not add up due to rounding.

savings rate; low and stable inflation; and a current account surplus provide ample liquidity in the financial system for the Government to access funds locally without crowding out the private sector. With revenue exceeding operating expenditure, borrowings are primarily to finance development expenditure, a cardinal rule strictly observed by the Government. Gross borrowings for the year are expected at RM96.1 billion. Of this, RM95.7 billion or 99.6% constitutes domestic borrowing while RM408 million is from external sources. Of the gross borrowings, RM55.8 billion is to repay existing debt while the balance of RM40.3 billion is mainly to finance the deficit.

In 2013, RM53.7 billion will be raised through the issuance of Malaysian Government Securities (MGS) while the balance RM42 billion, through

Government Investment Issues (GIIs). MGS is the largest source of funding at 56.1% of total gross domestic borrowings. However, a growing demand for high-quality Islamic debt papers has resulted in higher issuances of GIIs in recent years. GIIs now account for 43.9% of gross domestic borrowings compared to a mere 18.5% before the financial crisis in 2007. Greater acceptance of GIIs signals market confidence in Malaysia's macroeconomic fundamentals as genuine investors seek to diversify their risks and rebalance portfolios for steady returns. All issuances of MGS and GIIs will be raised through open tender to leverage the low interest rate, liquidity in the financial markets and further develop a deep, liquid and stable capital market.

Of the total issuance of MGS at RM53.7 billion for the year, RM26 billion will be raised through seven new issues, RM25.5 billion through re-opening of eight existing MGS, while the remaining RM2.2 billion through a switch auction of an existing MGS. The switch auction was undertaken as part of active debt management to ease bunching of redemptions. Seven issues are longer-dated debt papers with tenure of 10 years and more. This is to meet market demand for good sovereign debt papers and minimise bunching of MGS redemptions which have cash flow implications for the Government. For the first time, a 30-year MGS worth RM2.5 billion was issued on 30 September 2013. The issuance was well received by investors, including insurance companies and institutional investors. The coupon rates for new issues of MGS with tenure of between 10 and 30 years ranged between 3.48% – 4.94% during the first nine months of the year.

GIIs to be raised in 2013 comprise nine new issues (RM31 billion) and the re-opening of three existing GIIs (RM11 billion). Five issues are expected to be longer-dated papers with a maturity of 10, 15 and 20 years to meet niche demand for longer-dated issues as well as to further develop the Islamic capital market. To enhance liquidity and tradability of GIIs, and attract a wider investor base, including institutional investors from the Middle East, the

Government, for the first time in July, raised a RM4 billion GII based on the *Murabahah* contract. The 3-year GII under the Shariah-compliant *Murabahah* structure is essentially a certificate of indebtedness arising from a deferred mark-up sale of an asset (mainly CPO). Subsequent issuances of GIIs are expected to be based on this widely accepted structure.

MGS and GIIs continue to be in demand despite the volatility in the global financial markets as long-term institutional investors such as pension and social security funds; insurance companies; commercial banks and regional central banks seek quality debt instruments which give stable and continuous returns. The Malaysian economy has been able to weather the recent selling pressures and currency volatility due to its many strengths, including a well-developed financial market; strong intermediaries; and low external debt. Investability remains high with no withholding or capital gains tax while investors are free to hedge their investments. As such, foreign holdings of MGS and GIIs have remained high at 31% as at end-June 2013 compared with 11.4% as at end-December 2008 reflecting confidence in the strength and growth prospects of the Malaysian economy. As at end-June 2013, the major holders

of MGS and GIIs were foreign investors and the Employees Provident Fund (EPF) each holding 31%, followed by banking institutions (16.7%), and non-bank financial institutions (13.3%).

Gross international borrowings for 2013 will continue to decline in the absence of new external issuances coupled with net repayment of project loans. A total of RM408 million is expected to be drawn down mainly from bilateral sources to finance ongoing projects and programmes related to Pahang – Selangor raw water transfer and equipping the Malaysia-Japan International Institute of Technology which provides undergraduate and graduate programmes in the field of science and technology.

Debt

Government debt sustainable

The Government will ensure that debt level remains sustainable through sound macroeconomic policies, prudent debt management strategies as well as strict adherence to fiscal rules and regulations. As at end-June 2013, the external

TABLE 4.6

Federal Government Debt 2012 – 2013

	RM million		Share (%)		GDP (%)	
	2012	2013 ¹	2012	2013 ¹	2012	2013 ¹
Domestic debt	484,769	523,895	96.6	96.8	51.5	53.0
Treasury Bills	4,320	4,320	0.9	0.8	0.5	0.4
Investment Issues	145,899	173,500	29.1	32.1	15.5	17.6
Government Securities	292,150	305,075	58.2	56.4	31.0	30.9
Housing Loan Fund	42,400	41,000	8.5	7.6	4.5	4.2
External debt	16,848	17,397	3.4	3.2	1.8	1.8
Market loans	10,053	10,826	2.0	2.0	1.1	1.1
Project loans	6,795	6,571	1.4	1.2	0.7	0.7
Total	501,617	541,292	100.0	100.0	53.3	54.8

¹ Estimate.

Note: Total may not add up due to rounding.

Government Guarantees

- The Federal Government provides guarantees to statutory bodies, government-linked and state-owned companies with the approval of the Cabinet. Loans taken by these entities may be from domestic or external sources.
- Government guarantees (GGs) provided by the Government are governed by the provisions of the following Acts:
 - Loans Guarantee (Bodies Corporate) Act 1965; and
 - Financial Procedure Act 1957
- The Loans Guarantee (Bodies Corporate) Act 1965 requires a company to be gazetted as a body corporate before it is allowed to incur debt. The principal terms and conditions of the loan taken must also be approved by the Minister of Finance. As long as there is a guarantee outstanding, the company shall not raise further loans except with the consent of the Minister.
- The Government also provides guarantees for loans taken under promoted schemes such as in public housing, intellectual property and green technology. Under the Financial Procedure Act 1957, the Government works with participating banks and guarantees a portion of the fund set aside for such schemes. Any risk of default is then shared between the Government and the banks according to the proportion guaranteed. For instance, during the 2008/2009 financial crisis, the Government introduced three guarantee schemes amounting to RM25 billion to ensure sustained credit flows to support economic activity and restore business confidence.
- GGs are provided to enable statutory bodies, government-linked and state-owned companies undertake strategic projects which may have long gestation period; require heavy capital expenditure; or are less commercially viable and risky but vital for development of new growth areas. Projects backed by GGs boost investor confidence and facilitate access to funding at more competitive rates. Generally, a project becomes more attractive to potential investors if backed by a GG. The use of GGs may also be considered if the Government's financial resources are limited.
- A GG is not a debt. However, it is a contingent liability or an indirect liability on the Government. Should the borrower fail to repay the loan, the Government will be required to meet the debt obligations. Hence, GGs are issued judiciously and under stringent conditions as follows:
 - Only statutory bodies, government-linked and state-owned companies are eligible;
 - To finance projects that:
 - i. Are of national or strategic interest to the country eg. ports, airports and bridges;
 - ii. Contribute to economic growth, generate employment and business opportunities; and
 - iii. Provide direct benefit to the rakyat such as public infrastructure, education, transport and energy.
 - Ability of the company to repay debt is scrutinised to avoid possible default; and
 - A state-owned company is given a guarantee only with a back to back guarantee from the state government.
- To strengthen fiscal discipline, avoid moral hazard and ensure minimal impact on Government finances, rules and regulations on the issuance of GGs are continuously reviewed. Rules adhered to include:
 - Imposing a guarantee fee on GGs issued since 2012, in particular for projects that generate income. The fee collected will be deposited in a government guarantee trust fund to be set up. The fee collected serves as a reserve and will be invested to generate income to mitigate the impact on the Government in case of a default;
 - Funding must be accessed locally unless there is insufficient liquidity in the market;
 - Borrowers are closely monitored and are required to submit quarterly reports on loan repayments; and
 - New and future borrowings of the body corporate are subject to Government approval.

TABLE 4.7

**National Debt
2012 – 2013**

	RM million		Share (%)		GDP (%)	
	2012	2013 ¹	2012	2013 ¹	2012	2013 ¹
Medium-and long-term debt	159,788	170,256	63.2	59.8	17.0	17.2
Public sector	82,882	82,219	32.8	28.9	8.8	8.3
Federal Government	16,848	16,453	6.7	5.8	1.8	1.7
NFPEs	66,034	65,766	26.1	23.1	7.0	6.7
Guaranteed	10,358	9,765	4.1	3.4	1.1	1.0
Non-guaranteed	55,676	56,002	22.0	19.7	5.9	5.7
Private sector	76,906	88,036	30.4	30.9	8.2	8.9
Short-term debt	92,964	114,428	36.8	40.2	9.9	11.6
Total	252,752	284,683	100.0	100.0	26.9	28.8

¹ End-June 2013.

Note: Total may not add up due to rounding.

debt of the nation was higher at 28.8% of GDP (2012: 26.9%) while Federal Government debt will not exceed 55% of GDP for the year.

Total Federal Government debt is expected to increase to RM541.3 billion or 54.8% of GDP (2012: RM501.6 billion; 53.3%) mainly due to higher domestic borrowings to meet financing requirements. Domestic debt, which is primarily denominated in ringgit, accounts for 96.8% or RM523.9 billion of the total debt (2012: 96.6%: RM484.8 billion). Meanwhile, Federal Government external debt is projected to be marginally higher at RM17.4 billion or 1.8% of GDP (2012: RM16.8 billion; 1.8%) due to the appreciation of the USD. However, the external debt which is mainly denominated in US dollars and yen, accounts for only 3.2% of total Federal Government debt. Thus, Federal Government debt remains largely shielded from foreign exchange risk.

Although the debt level has remained high, especially since the 2008 global financial crisis, debt servicing capacity is within prudent limits. The Government will ensure that debt

service charges at 10.1% of revenue (2012: 9.4%) will not crowd out productive spending programmes. To ensure Government finances remain healthy, debt service charges will be capped below 15% of revenue while total Federal Government debt will be within 55% of GDP.

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 2013, the overall external debt rose to RM284.7 billion (end-2012: RM252.8 billion) largely due to net borrowings in short-term as well as medium and long-term debt by the private sector. The rise in debt level was also compounded by the strengthening of some major currencies against the ringgit during the first six months of the year. The external debt continues to be denominated in USD (71.5%), yen (5.3%), euro (2.9%) and other currencies (20.2%).

Medium and long-term debt, at 59.8% of external debt as at end-June 2013 grew to RM170.3 billion (end-2012: 63.2%; RM159.8 billion), due mainly to net borrowing activity by the non-bank private

sector. The external borrowings were mainly for investment purposes, particularly by companies in manufacturing; mining and quarrying; finance and insurance; as well as transport and storage subsectors. In contrast, public sector external debt moderated to RM82.2 billion (end-2012: RM82.9 billion) mainly due to net repayments by the NFPEs and the Federal Government. The NFPEs involved were mainly in the areas of finance, insurance and manufacturing. The private sector, NFPEs and the Federal Government accounted for 51.7%, 38.6% and 9.7%, respectively of the medium and long-term external debt.

Comprising 40.2% of external debt, short-term debt increased markedly to RM114.4 billion as at end-June 2013 (end-2012: 36.8%; RM93 billion) due mainly to a net draw down on inter-bank borrowings and the appreciation of major currencies against the ringgit. The higher inter-bank activity was largely to fund local and offshore investments as well as for domestic financing activities. Meanwhile, the debt of the non-bank private sector remained stable at RM12.5 billion while higher net repayments by the NFPEs saw external debt decline to a low RM7 million (end-2012: RM232 million). The banking sector remains the largest holder of short-term external debt at RM102 billion (89.1%) followed by the non-bank private sector at RM12.5 billion (10.9%) and the NFPEs. As at end-June 2013, the external debt service ratio was 10.7%, reflecting the sustainability of export earnings to service debt obligations while international reserves at RM432.8 billion (USD136.1 billion) were sufficient to cover 4.3 times the short-term debt.

State Governments

Small overall deficit

State governments are expected to incur significantly higher expenditure to sustain economic activity, promote inclusive development and improve service delivery in an environment of moderating growth. The consolidated financial position of state governments is projected to record a lower current surplus of RM8.3 billion

(2012: RM11.3 billion) on account of a marked increase in operating expenditure amid declining revenues. Similarly, with development expenditure anticipated to far outpace revenue growth due to higher commitments, the overall financial position of state governments is expected to post a small deficit of RM196 million, the first since 2003 (2012: RM4.3 billion). The deficit will be financed mainly by Federal Government grants and loans as well as from states' own financial assets.

Total revenue of the states comprises direct and indirect taxes (18.2%), non-tax revenue (55.3%) and non-revenue receipts (26.5%) which are mainly grants and reimbursements from the Federal Government. In tandem with modest growth prospects, total revenue is expected to contract 6.6% to RM20.1 billion (2012: 8.8%; RM21.5 billion). This is mainly due to lower receipts expected from all major components of non-tax revenue such as fees from licences and permits; royalties from

TABLE 4.8

Consolidated State Governments Financial Position 2012 – 2013

	RM million		Change (%)	
	2012	2013 ¹	2012	2013 ¹
Current Account				
Revenue	21,480	20,067	8.8	-6.6
Operating expenditure	10,166	11,751	11.9	15.6
Current account balance	11,314	8,316		
Development account				
Gross development expenditure	7,250	8,710	11.0	20.1
Development fund	7,154	8,587		
Water supply fund	97	123		
Less: Loan recovery	274	199		
Net development expenditure	6,976	8,512	13.3	22.0
Overall balance	4,338	-196		
% of GDP	0.5	0.0		

¹ Revised estimate.

Note: Total may not add up due to rounding.

petroleum and forestry; investment income; land premiums; as well as receipts from provision of goods and services. In contrast, direct taxes are anticipated to register a robust growth of 12% to RM2 billion (2012: 4.4%; RM1.8 billion), boosted by receipts from quit rent, drainage and irrigation rates as well as other land-based taxes. Other sources of direct taxes include proceeds from forest produce and mining rents. Meanwhile, indirect taxes are expected to decline 15.8% to RM1.6 billion (2012: -7.9%; RM1.9 billion) due to lower collection of sales tax by Sabah and Sarawak, on account of moderating CPO prices. Sales tax is the largest contributor to indirect taxes. Grants and reimbursements from the Federal Government, which are mainly for financing infrastructure and social projects as well as upgrading public facilities and amenities, will amount to RM4.2 billion.

Total expenditure is projected to increase 17.5% to RM20.5 billion (2012: 11.5%; RM17.4 billion). Operating expenditure, comprising 57.4% of total expenditure, is anticipated to be higher by 15.6% to RM11.8 billion (2012: 58.4%; 11.9%; RM10.2 billion). Emoluments, supplies and services as well as purchase of assets constitute 66% of operating expenditure. Emoluments are expected to increase 6% as state civil servants are also eligible for the salary increment given

to Federal civil servants in July 2013. Similarly, development expenditure is anticipated to expand 20.1% to RM8.7 billion (2012: 11%; RM7.3 billion) to finance agriculture and rural development; water supply projects; public amenities; transport; housing; as well as drainage and irrigation. To remain competitive and attract new investment projects, states will continue to improve service delivery, streamline rules and regulations as well as upgrade and modernise physical infrastructure to support commercial and industrial activities.

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 4.0% of GDP in 2013 (2012: -2.8%). This is on account of anticipated higher overall expenditure commitments which more than offset a marginal increase in revenues. Meanwhile, the Federal Government allocation to statutory bodies and state governments, in the form of grants and transfers remained stable at RM21 billion (2012: RM21.7 billion).

TABLE 4.9

Consolidated General Government Financial Position 2012 – 2014

	RM million			Change (%)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Current account						
Revenue	250,623	251,879	257,101	15.2	0.5	2.1
Operating expenditure	226,487	239,239	239,986	14.0	5.6	0.3
Current account balance	24,136	12,639	17,114			
Development expenditure	50,867	52,572	53,144	-1.8	3.4	1.1
Overall balance	-26,731	-39,933	-36,030			
% of GDP	-2.8	-4.0	-3.4			

¹ Revised estimate.

² Budget estimate, excluding 2014 tax measures.

Note: Total may not add up due to rounding.

Non-Financial Public Enterprises

Strong investments

The challenging external environment, modest growth in the domestic economy coupled with moderating commodity prices are expected to impact the profitability of NFPEs in 2013. Despite this, the NFPEs are committed to continuing their business plans and investment activities to remain competitive, boost shareholder value and enhance their long-term revenue prospects. The consolidated financial position of NFPEs is therefore projected to register a significantly higher deficit of RM93 billion (2012: -RM15.6 billion) on account of higher capital expenditure amid a decline in revenues.

The consolidated revenue of NFPEs is expected to contract 3.7% to RM404.5 billion (2012: 19.6%; RM420.1 billion) despite steady growth in telecommunications and trade-related activities; sustained returns from investments and real estate developments; continued expansion in construction activities; improved air and rail passenger traffic; as well as sales of electricity and vehicles. The strong expansion in business and commercial activities is reflected in rising operating costs, with current expenditure anticipated to grow 5.6% to RM371.2 billion (2012: 17.8%; RM351.6 billion). This is due mainly to cost of raw materials, fuel, rental, utilities, marketing, staff-related costs as well as repair and maintenance. In addition, NFPEs continue to invest heavily in improving product and service delivery. Despite ongoing measures to constantly improve operational efficiencies and enhance productivity, growth in current expenditure of NFPEs is expected to far outpace revenue growth, resulting in a markedly lower current account surplus of RM33.3 billion (2012: RM68.5 billion).

In consonance with the need to secure future earnings, and leverage investment opportunities at home and abroad, the development expenditure of NFPEs is also envisaged to accelerate markedly by 50.2% to RM126.2 billion (2012: 69.9%; RM84 billion). Despite the uncertainties in the external sector and the competitive operating

TABLE 4.10

Consolidated NFPEs Financial Position¹ 2012 – 2013

	RM million		Change (%)	
	2012	2013 ²	2012	2013 ²
Revenue	420,109	404,488	19.6	-3.7
Current expenditure	351,623	371,205	17.8	5.6
Current surplus	68,486	33,282		
Development expenditure	84,042	126,234	69.9	50.2
Overall balance	-15,556	-92,952		
% of GDP	-1.7	-9.4		

¹ Refers to 30 major NFPEs.

² Revised estimate.

Note: Total may not add up due to rounding.

environment, NFPEs are expected to remain resilient in their niche areas, having honed their expertise through the years in business, and from various transformation programmes. NFPEs have already made their mark abroad in sectors such as O&G, power generation, telecommunications, construction and real estate.

Investments at home and abroad are mainly for capacity expansion of new and existing facilities; product and services development; as well as new business ventures. Domestic investments, accounting for 64% (2012: 61.5%) of the total capital spending, are slated to increase significantly by 56.3% to RM80.8 billion (2012: 43.5%; RM51.7 billion). The bulk of capital investments are in the O&G; power generation, transmission and distribution; property development; plantations; housing; road, air and urban rail infrastructure; public transport; and telecommunications. Major ongoing commitments include the liquefied natural gas (LNG) regasification terminal in Melaka; construction of MRT from Sungai Buloh to Kajang; the extension of the Kelana Jaya – Ampang LRT transit to Putra Heights; completion of KLIA2; upgrading telecommunication infrastructure and technologies; and real estate development in Iskandar Malaysia.

TABLE 4.11

Consolidated Public Sector Financial Position 2012 – 2014

	RM million			Change (%)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Revenue	189,092	201,426	204,899	17.7	6.5	1.7
Operating expenditure	226,009	238,599	239,715	15.2	5.6	0.5
NFPEs current surplus	129,437	82,898	97,860	21.0	-36.0	18.0
Public sector current balance	92,520	45,725	63,044			
Development expenditure	134,853	178,657	162,519	33.2	32.5	-9.0
General government	50,811	52,423	52,971	-1.9	3.2	1.0
NFPEs	84,042	126,234	109,548	33.2	50.2	-13.2
Overall balance	-42,333	-132,931	-99,475			
% of GDP	-4.5	-13.5	-9.4			

¹ Revised estimate.

² Budget estimate, excluding 2014 tax measures.

Note: Total may not add up due to rounding.

NFPEs contribute significantly to the economy through their involvement in gross capital formation; job creation; training and skills enhancement; nurturing small companies; and development of niche growth areas. Nevertheless, the Government will relinquish its interest in non-core assets of the NFPEs to provide more meaningful investment opportunities for the private sector.

Consolidated Public Sector

Higher expenditure commitments

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 2013, the consolidated public sector is expected to post a lower current account surplus of RM45.7 billion (2012: RM92.5 billion) mainly due to a marked decline of 36% (2012: 21%) in the current surplus of the NFPEs. This is attributable to lower revenues amid a challenging external environment, coupled with rising operating costs. Given the significantly higher investment plans by the NFPEs, the financial position of the consolidated public

sector is expected to record a higher overall deficit of RM132.9 billion or 13.5% of GDP (2012: -RM42.3 billion; -4.5%).

Prospects for 2014

Lower fiscal deficit

Global economic activity is anticipated to pick up momentum, with emerging economies expanding at a steady pace. The Malaysian economy is expected to grow 5% – 5.5% supported by resilient domestic demand and an improving external sector. Private demand is anticipated to strengthen further amid firm commodity prices, wider access to credit, favourable labour market conditions and sustained investment activity by the broader public sector.

Given the overarching guidance and firm commitment from the FPC, fiscal reforms will be judiciously pursued without undermining growth. Total Federal Government expenditure in 2014 is expected to remain flat at RM262.2 billion in tandem with concerted efforts to rein in non-productive expenditure. Federal Government revenue is, however, forecast to be more

favourable at RM224.1 billion on account of stronger economic activity across all sectors, better tax administration and revenue collection. Consequently, fiscal consolidation will be well paced, with the deficit projected to decline further to 3.5% of GDP in 2014.

Structural reforms are essential to generate higher growth. These relate to boosting competitiveness of the economy; improving labour productivity; increasing automation and adoption of latest technologies; as well as embracing a culture of innovation in a holistic manner. The 2014 Budget will therefore reinforce efforts to boost quality growth and resilience of the economy. Fiscal resources will be geared towards invigorating investments in targeted sectors; strengthening fiscal management for policy space; intensifying human capital development to advance the nation; and enhancing service delivery to meet the challenges of a dynamic working environment. Priority will also be accorded to ensure the continued well-being of the rakyat.

The measures in 2014 Budget will focus on promoting high value-add investments; accelerating corridor and regional development; enhancing the potential of SMEs; commercialising R&D findings; as well as investing in human capital development. The culture of doing more, better and faster with the same or less resources will be embedded in service delivery. Government agencies will be encouraged to collaborate among themselves as well as with the private sector and the community to achieve common objectives. This would facilitate initiatives to be implemented quickly, at a minimum cost and easily replicated nationwide. More importantly, the programmes will be sustainable as the multiple stakeholders strive for shared outcomes.

Towards promoting greater financial accountability and transparency in the civil service, the recommendations of the Auditor-General will be internalised in systems and work processes relating to procurement of goods and services. Further, internal audit functions of government agencies will be strengthened to minimise leakages,

wastage and negligence. Meanwhile, measures to strengthen Government revenue include a comprehensive review of existing tax incentives to industry to ensure the promotion of quality investments in targeted areas. Recognising that in a competitive global environment, pro-growth and business-friendly policies are critical for a vibrant private sector, the Government will also undertake a holistic review of the tax system.

Towards this, substantial funds will be allocated for projects under the RPs, NKEAs (RM2.8 billion) and SRIs (RM219 million). Meanwhile, the Government Transformation Programme (GTP) 2.0, which has advanced into the second phase (2013-2015), will be given RM4 billion for programmes under the seven NKRAAs. A sum of RM4 billion is also set aside for new and ongoing strategic projects with significant multiplier effects under the Facilitation Fund.

Consistent with efforts to ensure fiscal targets for 2014 are met, **operating expenditure** is expected to grow at a significantly slower pace of 0.7% to RM217.7 billion. Of this, the outlay for reform initiatives under NKRAAs (RM1.1 billion), NKEAs (RM231 million), SRIs (RM23 million), and NBOS (RM278 million) will amount to RM1.6 billion. Substantial allocations are provided for education; reducing crime; tourism; and income-generating activities for low income households. Small businesses, retailers and cooperatives will be given assistance to modernise their operations and be part of the local distribution chain. Meanwhile, NBOS programmes are given a boost to encourage novel but cost effective ways of delivering service to the rakyat.

Emoluments will be provided a higher sum of RM63.6 billion following adjustments to salaries of civil servants and Armed Forces in July 2013. Allocation for charged and “locked-in” items such as **debt service charges** (RM23.2 billion), **pension and gratuities** (RM15.7 billion) as well as **grants and transfers to state governments** (RM6.7 billion) and **statutory bodies** (RM16.3 billion) will also see an increase due to rising commitments.

Meanwhile, **supplies and services** as well as **asset acquisition** will be provided RM36.6 billion and RM1.4 billion, respectively to ensure the civil service is well equipped to meet service standards of an increasingly discerning populace. Maintenance culture will be strengthened to ensure public assets are well maintained and fully utilised. Total allocation for **subsidies**, comprising various subsidies (RM27.6 billion), incentives (RM884 million) and social assistance programmes (RM10.9 billion), will decline 15.6% to RM39.4 billion or 18.1% of operating expenditure. This is due to lower provision for fuel subsidies (RM22.3 billion) as the price of refined petroleum products is anticipated to moderate due to tepid global demand. Nevertheless, fuel subsidy, at 10.3% of operating expenditure, remains the largest component of subsidies. Other major components of subsidies include paddy-related schemes (RM1 billion); interest rate differentials, including loans for higher education and various strategic financing schemes (RM1.7 billion); toll compensation (RM461 million); cooking oil stabilisation scheme (RM1 billion); and incentives to increase food production (RM884 million). Social assistance programmes include scholarships and various programmes to assist the orang asli; rural, urban and hardcore poor; the disabled; and senior citizens.

Development expenditure will be allocated a marginally lower sum of RM44.5 billion or 17% of total expenditure in 2014, consistent with spending needs of ministries and government agencies. The allocation includes funding for the rollout of projects under the RPs as well as initiatives under the NKRAs (RM2.9 billion), NKEAs (RM2.6 billion) and SRIs (RM196 million). The NKRAs on RBI (RM2.6 billion), UPT (RM168 million) and education (RM107 million) will account for 98% of total NKRA allocation. Meanwhile, NKEA initiatives will concentrate mainly on Greater KL/ KV (RM1.1 billion), agriculture (RM634 million), palm oil and rubber (RM390 million) and education (RM202 million) as well as communication content and infrastructure (RM181 million). For the SRIs, cross-cutting programmes in public finance (RM184 million) and human capital development (RM7 million) are given priority.

The **economic services sector** will be allocated the largest sum of RM28.8 billion or 64.8% of total development expenditure in 2014. Focus will be on *transport and infrastructure* development (RM8.7 billion). Major projects planned for the year include building the Kuala Terengganu Bypass and Feeder Road (Phase 3) as well as upgrading road works from Gambang (Pahang) to Segamat (Johor) (Phase 1) and Pulau Indah Highway. Meanwhile, initiatives to improve public transport services, facilities and connectivity will be strengthened. Mindful that physical accessibility is vital to spur economic activities, the construction of roads and bridges in rural areas, including Sabah and Sarawak, will be given a boost through a sum of RM4.7 billion. Infrastructure development in Southern Johor will be upgraded to enhance its attractiveness as a multi-sectoral investment hub.

Amid the lingering uncertainties in the global economy, fiscal resources will be utilised, among others, to strengthen domestic economic activities through an allocation of RM5.8 billion for the *trade and industry subsector*. Substantial provision is made to build capacity and capability; promote innovation and entrepreneurship; and skills development in industry (RM5.4 billion). Given their potential to contribute to the local economy, SMEs will continue to receive technical, advisory and financial assistance to enable them to move up the value chain and be part of the global supply network (RM128 million). To facilitate expansion of existing investments and attract new ventures in states, infrastructure facilities in industrial areas nationwide will be upgraded. Likewise, access to funds for the acquisition and commercialisation of technology as well as R&D in promoted sectors will be made available (RM24 million). Corridor development will be further spurred (RM1.6 billion) as the five growth corridors continue to attract investments in targeted areas. Tourism will be given a boost (RM312 million) to develop new, iconic and niche products as well as upgrade existing tourism facilities. Marketing and promotions will be targeted and intensified to attract more high-spending tourists for the VMY 2014. Similarly,

Langkawi Island will be a mainstay in the annual tourism calendar as a favoured tourist destination (RM135 million). About 28 million tourists are expected in 2014, generating RM76 billion in foreign exchange.

Provision of public goods such as water supply, electricity and sewerage services, especially in rural areas, will be given priority. Towards this, the *public utilities, energy and communication subsector* is allocated RM3.7 billion to improve the quality of life of the rakyat. A sum of RM50 million will also be expended to improve broadband infrastructure in urban, high growth and industrial areas to boost business efficiency and productivity.

Initiatives to boost agricultural productivity and efficiency will be accelerated through modern farming methods, commercialising R&D output as well as encouraging high value-added activities to make it a lucrative and attractive sector. To realise this goal, the *agriculture and rural development subsector* will be allocated RM3.1 billion. Agriculture support services will be continuously enhanced to uplift the farming community (RM21 million) while access to credit facilitated. Meanwhile, R&D activities will be intensified to improve the quality, diversify products as well as market the output more effectively.

A sum of RM10.6 billion or 23.8% of total development expenditure is allocated under the **social services sector** for critical areas such as education and training, health, welfare services and housing. To meet the demand for a multilingual, highly skilled, creative and innovative workforce with the right mental attitude, *education and training subsector* is provided the largest sum at RM4.9 billion or 11% of total development expenditure. Of this, RM1.1 billion is for primary and secondary education; RM2.3 billion for higher education; and RM681 million for industrial, skills and management training programmes. In addition, pre-school education (RM1 million) will be improved to give children a solid foundation to promote lifelong learning. More than 470 industrial and vocational institutes as well as polytechnics and community colleges,

with a student population of about 120,000, will be continuously upgraded and well equipped to address skills mismatch and lack of industry specific skills. For the year, nine new skills training institutes, polytechnics as well as vocational and technical schools have been planned.

The Government will ensure wider access to quality and affordable healthcare in rural and urban areas. Hence, the *health subsector* is given the second largest allocation of RM1.7 billion to build, upgrade, and equip hospitals and clinics. Hospitals in Jeli and Kuala Lipis will be expanded while a new hospital is planned for Tanjong Karang. An additional 50 1Malaysia Clinics are slated to be operational by end-2014 to serve a wider population, bringing the total of 1Malaysia Clinics in service to 284.

Service delivery, infrastructure and facilities at the local level and in rural areas will be further enhanced (RM2 billion). Allocation is provided for solid waste management (RM223 million), small projects (RM297 million) fire-fighting services (RM202 million) as well as welfare services for the elderly and poor. Projects and programmes which impart living skills and promote economic activities will be implemented to empower the rural poor in a sustainable manner. Meanwhile, to improve incomes of the rural hardcore poor, income-generating programmes such as the agropolitan schemes under *Program Lonjakan Mega Luar Bandar* will be strengthened (RM285 million).

Access to affordable houses, especially in urban areas, is a growing concern. A sum of RM506 million is allocated for the construction of *PPR Dimiliki, Disewa and Bersepadu* while RM138 million will be expended for the maintenance of public housing projects. Meanwhile, PR1MA, which caters for the housing needs of the middle-income group, is expected to roll out about 80,000 units which are envisaged to be ready for vacant possession from 2015 (RM400 million). National security and public safety concerns will be addressed comprehensively through an allocation of RM4 billion for the **security sector**. Among others, the sum includes provision for enhanced

police presence and visibility in crime-prone areas as outlined under the NKRA to reduce crime (RM44 million). Allocation for **general administration** will amount to RM1.1 billion for continuous improvements in public service delivery through computerisation of Government departments; wider use of ICT applications; as well as building, upgrading and maintenance of Government facilities and assets.

Federal Government **revenue** is projected to be higher at RM224.1 billion in line with the stronger expansion in domestic investment and consumption activity; as well as gains from an improving external sector. **Tax revenues** are expected to increase 5.2% to RM172 billion supported by firm corporate earnings; access to financing; favourable labour market conditions; and rising disposable incomes. All components of tax revenue, except PITA, are anticipated to register positive growth. Despite higher production and steady demand from countries such as Australia, India, Thailand, Korea and China, receipts from PITA are expected to decline by 7.3% to RM28.3 billion due to lower crude oil prices.

Meanwhile, **non-tax revenue** comprising mainly investment income, licences, registration fees and permits are projected to be lower at RM52.1 billion. However, dividend income from PETRONAS (RM27 billion), BNM (RM1.5 billion) and Khazanah (RM500 million) will remain stable while proceeds from petroleum royalties, like PITA, are anticipated to decline (RM5.7 billion). The Government will continue to strengthen tax administration and improve compliance to enhance revenue collection.

The Government remains committed to pursuing a sound fiscal policy while supportive of economic growth and reform initiatives which are critical to improve productivity and competitiveness of the economy. Fiscal targets on debt and deficit will be met while strictly observing rules and regulations on spending, revenue collection and debt management. Good governance, strong fiscal institutions, prudent financial management and well-paced and articulated fiscal reforms will ensure healthy public finances and boost market confidence.

