



4

PUBLIC SECTOR FINANCE

Public Sector Finance

Overview

Fiscal reform initiatives to strengthen financial position

The fiscal policy is aimed at sustaining growth momentum and strengthening fiscal management, with the overall objective of ensuring national prosperity and promoting well-being of the rakyat. The Federal Government continues its effort to consolidate the fiscal position with the target to achieve a balanced budget by 2020. Fiscal consolidation, while allowing the deficit to be further reduced, continues to intensify measures to ensure sustainable economic growth. The results have been encouraging, with GDP in the second quarter of 2014 registering a strong growth of 6.4% and is estimated to record 5.5% – 6% for the year. Meanwhile, the fiscal deficit is expected to further reduce from 3.9% in 2013 to 3.5% of GDP in 2014.

The Government has embarked on the Fiscal Transformation Programme (FTP) to further strengthen its financial position and is implementing various fiscal reform initiatives to meet long-term sustainability. Such initiatives will reduce the Federal Government debt and create the fiscal space to cushion the economy against external shocks. During the 1997/1998 Asian financial crisis and the 2008 global economic crisis, given the larger fiscal flexibility and low-debt level, the Government was able to undertake stimulus packages. These included introducing initiatives to stimulate economic activities and providing higher subsidies as well as various social assistance programmes.

Among key policy measures under the fiscal reform initiatives include the introduction of the Goods and Services Tax (GST), Outcome-Based Budgeting (OBB) and accrual accounting as

well as implementing subsidy rationalisation, improving spending efficiency and undertaking stringent auditing. Meanwhile, sustained revenue growth, especially from the non-oil sector, is imperative in ensuring Government's finances remain strong. The Government will rely less on oil-related revenue as global crude oil prices and exchange rates are highly volatile. Moreover, oil is a depleting resource. The Government has, thus prudently reduced its dependency on oil-related revenue from 41.3% in 2009 to 31.2% in 2013 and this is expected to decline further in the coming years. Hence, the implementation of a new tax structure, namely GST will allow the Government to streamline and broaden the tax base.

The Government recognises that the current sales and service tax have certain weaknesses such as the impact of double taxation on consumers and transfer pricing. These will ultimately result in losses to consumers and the Government. In this regard, the two taxes will be replaced by a single tax known as the GST, at a fixed rate of 6%, the lowest among member countries of the Association of Southeast Asian Nations (ASEAN). The GST will not be imposed on selected items such as essential food items, services provided by the Government, transportation services as well as sale, purchase and rental of residential properties. Following the implementation of GST, the Government is committed to providing various forms of assistance and support, which include reduction in individual and corporate income tax rates, tax incentives, cash assistance as well as grants for training and purchase of accounting software. These assistance packages will help to reduce the inflationary pressures and ensure seamless implementation of GST. Prices of goods will be constantly monitored and a shoppers' list will also be disseminated as a guide for consumers to compare prices.

To ensure a more effective subsidy system, the Government is currently undertaking subsidy rationalisation initiatives to gradually shift from blanket subsidies that benefit everyone, regardless of income levels, to more targeted groups. This will help to optimise resources, curb smuggling activities and avoid leakages. The Government had spent more than RM40 billion in 2013 for various types of subsidies, incentives and assistance, which among others relate to petroleum products, food, health, agriculture and fisheries, toll compensation as well as welfare and education. Of these, more than half or RM23.5 billion was spent for subsidy on petroleum products. As the provision of fuel subsidy is not targeted, there has been excessive usage of fuel and smuggling activities. These factors, combined with higher global oil prices in the last few years, have resulted in a significant increase in the fuel subsidy bill. Therefore, rationalising the current subsidy mechanism will generate significant savings that can be channelled towards targeted programmes and development projects to benefit the rakyat, such as enhancing education and training, building more affordable houses, hospitals and clinics, improving and expanding public transportation system as well as strengthening national security.

Generally, a reduction of 20 sen per litre in subsidy for RON95 and diesel is expected to result in annual savings of RM4 billion. In addition, the removal of sugar subsidy had saved an additional RM480 million. These measures are vital in ensuring effectiveness of Government spending and reducing market inefficiency. Recognising that there will be segments of the economy that could be adversely affected during the period of adjustment, the Government has provided various incentives and assistance to ease the burden of the rakyat, especially the vulnerable groups. These include the Bantuan Rakyat 1Malaysia (BR1M) cash assistance programme, school assistance, housing subsidies and income tax incentives. In addition, the Government has stepped up enforcement measures to curb profiteering and hoarding.

The Government will shift from cash-based to accrual accounting practice, in line with the requirements of the International Public Sector Accounting Standards (IPSAS). The adoption will enable the Government to reflect a more comprehensive and accurate financial performance, thus enhancing accountability and transparency of its financial management. Following this, the Government will be able to measure assets and liabilities that are relevant to the overall stance of fiscal policy and sustainability. Accrual accounting is essential to systematically determine the full costs of the Government's activities and assess the efficiency of its services.

With the implementation of fiscal reform initiatives, the Federal Government's overall deficit is expected to decline to 3.5% of GDP in 2014. In line with the gradual reduction in deficit, borrowing will continue to be sourced from the ample liquidity in the domestic market, without crowding out the private sector or exerting inflationary pressures. Debt service charges have also remained low and manageable. Steps to ensure prudent and efficient fiscal management will remain a priority, thus clearly indicating the Government's commitment towards fiscal targets to strengthen its financial position. In this regard, the Fiscal Policy Committee (FPC), which was established in 2013, has been meeting actively to assess various issues and make decisions to ensure medium-term fiscal sustainability.

Federal Government

Fiscal consolidation is on track

In line with the consolidation effort, the Federal Government is expected to register a lower deficit of RM37.3 billion or 3.5% of GDP in 2014 from RM38.6 billion or 3.9% in 2013. This will be accomplished by a reduction of 1.3 percentage point in total spending as a share of GDP, significantly larger than the reduction of 0.4 percentage point in the deficit.

TABLE 4.1

Federal Government Financial Position 2013 – 2015

	RM million			Change (%)			Share of GDP (%)		
	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²
Revenue	213,370	225,094	235,219	2.6	5.5	4.5	21.6	20.9	20.0
Operating expenditure	211,270	221,112	223,440	2.8	4.7	1.1	21.4	20.5	19.0
Current surplus	2,100	3,982	11,779	-11.6	89.6	195.8	0.2	0.4	1.0
Gross development expenditure	42,210	42,222	48,500	-10.1	0.03	14.9	4.3	3.9	4.1
Less: Loan recovery	1,526	949	1,033	-41.4	-37.8	8.9	0.2	0.1	0.1
Net development expenditure	40,684	41,273	47,467	-8.2	1.4	15.0	4.1	3.8	4.0
Overall balance	-38,584	-37,291	-35,688	-8.0	-3.4	-4.3	-3.9	-3.5	-3.0

¹ Revised estimate.² Budget estimate, excluding 2015 Budget measures.

About seven-tenths of the reduction is from constraining operating expenditure to grow more slowly than nominal GDP, underpinned by strong economic growth this year. At the same time, the Government has been successful in its efforts to increase collection of tax revenue from non-oil sectors, as part of its long-term strategy to increase non-oil revenue. Oil-related revenue is on a declining trend, from 9.2% of GDP in 2009 and is expected to register about 6.2% in 2014. Meanwhile, the Government will ensure the current account balance remains in surplus while borrowing is confined to financing development expenditure. This will ensure the debt position is at a manageable level.

Revenue

Strong growth in non-oil tax revenue

Federal Government revenue in 2014 is expected to further strengthen in line with resilient domestic economic activity. Total revenue collection is forecast to increase 5.5% to RM225.1 billion. Nevertheless, total revenue as a percentage

of GDP, is expected to decline but remained stable at 20.9% (2013: 21.6%), due to lower collection of oil-related revenue as well as non-tax revenue. Oil-related revenue started to decline when global oil price moderated from its peak despite a stable production volume of more than 600,000 barrels per day. Efforts have been undertaken to enhance oil recovery from existing fields as well as to explore and discover new fields in line with the initiatives under the Economic Transformation Programme (ETP). **Tax revenue**, with a share of 76.3% to total revenue, is estimated to grow 10.1% to RM171.8 billion and remains high at 15.9% of GDP (2013: 15.8%). Meanwhile, non-tax revenue is expected to register RM53.3 billion. In addition, as the Government implements various measures to broaden the revenue base, the dependency on oil-related revenue will be reduced gradually. In 2014, oil-related revenue is expected to constitute 29.7% of total revenue compared with its peak at 41.3% in 2009.

Direct tax, contributing 59.1% to total revenue, is estimated to increase 10.5% to RM133.1 billion in 2014 (2013: 3.1%; RM120.5 billion) in tandem with the strong economic performance. Corporate

TABLE 4.2

Federal Government Revenue 2013 – 2015

	RM million			Change (%)			Share of Total (%)		
	2013	2014 ²	2015 ³	2013	2014 ²	2015 ³	2013	2014 ²	2015 ³
Tax revenue	155,952	171,770	183,378	2.8	10.1	6.8	73.1	76.3	78.0
Direct tax	120,523	133,148	135,646	3.1	10.5	1.9	56.5	59.1	57.7
of which:									
Companies	58,175	67,679	72,589	13.4	16.3	7.3	27.3	30.1	30.9
PITA ¹	29,753	28,275	25,600	-12.3	-5.0	-9.5	13.9	12.6	10.9
Individuals	23,055	26,746	26,553	0.3	16.0	-0.7	10.8	11.9	11.3
Indirect tax	35,429	38,622	47,732	2.1	9.0	23.6	16.6	17.2	20.3
of which:									
Excise duties	12,193	13,442	13,717	0.0	10.2	2.0	5.7	6.0	5.8
Sales tax	10,068	10,986	2,734	6.0	9.1	-75.1	4.7	4.9	1.2
Service tax	5,944	6,780	1,874	6.5	14.1	-72.4	2.8	3.0	0.8
GST	-	-	21,720	-	-	100.0	-	-	9.2
Non-tax revenue	57,418	53,324	51,841	2.0	-7.1	-2.8	26.9	23.7	22.0
of which:									
Licences / permits	13,418	13,049	13,143	-1.1	-2.7	0.7	6.3	5.8	5.6
Investment income	35,306	32,815	31,144	-3.9	-7.1	-5.1	16.5	14.6	13.2
Total revenue	213,370	225,094	235,219	2.6	5.5	4.5	100.0	100.0	100.0
% of GDP	21.6	20.9	20.0						

¹ Petroleum Income Tax.² Revised estimate.³ Budget estimate, excluding 2015 tax measures.

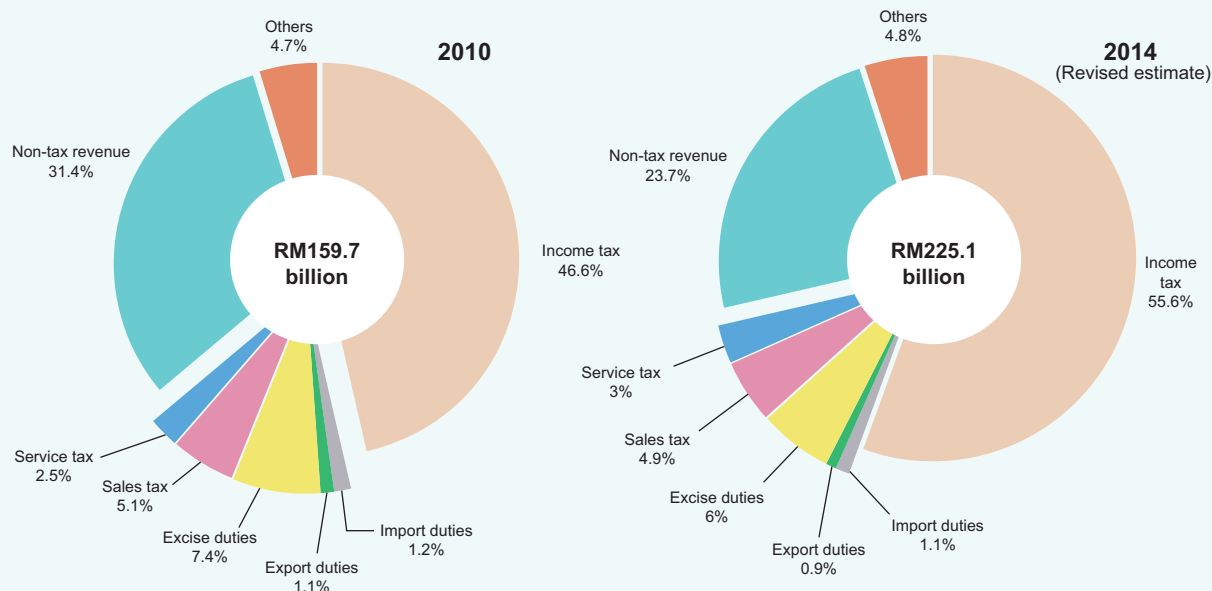
income tax is anticipated to grow strongly by 16.3% to RM67.7 billion (2013: 13.4%; RM58.2 billion), anchored by an upsurge in business profits as well as higher tax compliance and auditing. Corporate income tax remains the largest component, representing 30.1% of total revenue. Similarly, individual income tax is expected to strengthen 16% to RM26.7 billion, underpinned by stable employment and wage growth. Revenue from petroleum income tax (PITA), which constitutes 12.6% of total revenue, is estimated to decline to RM28.3 billion due to moderating crude oil prices despite stable production. Other direct tax, which includes receipts from stamp duties and real property gains tax (RPGT), is expected to further strengthen. Receipts from stamp duties

and RPGT are estimated to contribute RM7 billion and RM0.8 billion, respectively, reflecting high value of properties and strong economic activity during the year.

Indirect tax is envisaged to rise 9% to RM38.6 billion, with its share to total revenue increasing to 17.2% (2013: 16.6%). Excise duties are anticipated to expand 10.2% to RM13.4 billion (2013: RM12.2 billion) on account of higher sales of motor vehicles, cigarettes and alcoholic beverage. Collection from sales and service tax is expected to be higher at RM11 billion and RM6.8 billion, respectively, benefiting from the encouraging sales of motor vehicles and higher demand of telecommunication services, as well as

CHART 4.1

Federal Government Revenue



Source: Ministry of Finance, Malaysia.

increased tourist spending in conjunction with Visit Malaysia Year (VMY) 2014. In contrast, despite higher imports of goods, receipts from import duties are anticipated to remain stable at RM2.5 billion, in line with the progressive commitment to regional and bilateral trade arrangements.

Non-tax revenue collection, which includes licences and permits, investment income, non-revenue receipts as well as revenue from the Federal Territories, is projected to register RM53.3 billion in 2014. Investment income, with a share of 61.5%, remains the largest contributor to total non-tax revenue mainly due to dividend receipts from Petroliaam Nasional Berhad (PETRONAS), Bank Negara Malaysia and Khazanah Nasional Berhad. Receipts from licences and permits are expected to register RM13 billion, with petroleum royalties, motor vehicle licences and levy on foreign workers as the major contributors.

Expenditure

Productive spending to support growth

Government spending will continue to be channelled towards enhancing capacity building of the nation and to obtain higher multiplier effect. Expenditure is based on the principles of cost-effectiveness, efficiency, productivity and outcome. The Federal Government total expenditure in 2014 is estimated to increase moderately by 3.9% to RM263.3 billion, in line with prudent spending. Total expenditure as a percentage of GDP is expected to further decline from 25.7% in 2013 to 24.4% in 2014. A sum of RM221.1 billion or 84% is allocated for operating expenditure, while the balance of RM42.2 billion is for development expenditure.

TABLE 4.3

Federal Government Operating Expenditure by Object 2013 – 2015

	RM million			Change (%)			Share of Total (%)		
	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²
Emoluments	61,001	65,357	65,652	1.6	7.1	0.5	28.9	29.6	29.4
Debt service charges	20,776	23,186	24,379	6.3	11.6	5.1	9.8	10.5	10.9
Grants and transfers to state governments	6,046	6,697	7,444	6.2	10.8	11.1	2.9	3.0	3.3
Pensions and gratuities	14,842	16,167	16,256	5.4	8.9	0.6	7.0	7.3	7.3
Supplies and services	33,860	36,421	38,099	5.9	7.6	4.6	16.0	16.5	17.1
Subsidies	43,349	40,558	37,688	-1.6	-6.4	-7.1	20.5	18.3	16.9
Grants to statutory bodies	14,761	16,665	16,732	-7.6	12.9	0.4	7.0	7.5	7.5
Refunds and write-off	1,097	1,358	1,664	-15.1	23.8	22.5	0.5	0.6	0.7
Others	15,538	14,703	15,526	20.3	-5.4	5.6	7.4	6.7	6.9
Total	211,270	221,112	223,440	2.8	4.7	1.1	100.0	100.0	100.0
% of GDP	21.4	20.5	19.0						

¹ Revised estimate.² Budget estimate, excluding 2015 Budget measures.

Operating expenditure is expected to increase 4.7% to RM221.1 billion, implying a large reduction in its share to GDP by 0.9 percentage point. The bulk of the expenditure goes to emoluments, supplies and services, subsidies and debt service charges. **Emoluments**, the largest component constituting 29.6% of operating expenditure, is estimated to expand 7.1% to RM65.4 billion (2013: RM61 billion). Factors contributing to the increase include provision for an annual salary increment as well as a half-month bonus for 2013 and special financial assistance of RM500. Outlays on **supplies and services** are envisaged to register a growth of 7.6% to RM36.4 billion (2013: 5.9%; RM33.9 billion), mainly for maintenance and repairs, rentals, utilities and payments for professional and technical services. In consonance with administrative measures to rein in discretionary spending, cost-cutting initiatives have been implemented, which include reducing utility bills, travel, food and beverage expenses as well as optimising the usage of government-owned training facilities and existing office space

to reduce rental charges. Nevertheless, such measures will not compromise the quality of public service delivery.

Subsidy allocation is expected to remain large at RM40.6 billion in 2014 (2013: RM43.3 billion). The bulk of subsidy payments are channelled for fuel and cash assistance; social welfare programmes; basic food essential items such as cooking oil, rice and flour; toll compensation; interest rate differential; educational assistance as well as incentives for farmers and fishermen to increase food production and fish landing. Expenditure on fuel subsidies and cash assistance is expected to register RM23.2 billion in 2014. Fuel subsidy payment is expected to be lower in tandem with moderating crude oil prices, which is forecast to record an average of USD110 per barrel in 2014 (2013: USD115 per barrel) as well as implementation of subsidy rationalisation measures. Meanwhile, BR1M recipients have been expanded to also include households earning between RM3,000 and RM4,000 per month. The

programme has benefited a total of 6.9 million recipients in 2014 with a cash disbursement of RM3.6 billion. In addition, the Government has continued the school assistance programme of RM100 for all primary and secondary students as well as book vouchers worth RM250 to students of higher learning institutions.

Debt service charges or interest payments on loans are mandated items and are constitutionally required to be met before all other discretionary expenditures. In 2014, debt service charges are estimated to increase 11.6% to RM23.2 billion (2013: 6.3%; RM20.8 billion). As a percentage of total operating expenditure and revenue, debt service charges remain stable at 10.5% and 10.3%, respectively. The Government will ensure that the debt service charges will not exceed the threshold of 15% of total revenue under the administrative fiscal rules.

Grants to statutory bodies are anticipated to increase 12.9% to RM16.7 billion, primarily for emoluments as well as supplies and services. Most of the grants will be disbursed to public institutions of higher learning. Meanwhile, substantial allocation is also provided for **pensions and gratuities** (RM16.2 billion) as well as **grants and transfers to state governments** (RM6.7 billion).

Development expenditure in 2014 is expected to remain large at RM42.2 billion and will continue to support and invigorate domestic economic activities. To improve expenditure efficiency, the use of cost-benefit and value-management analysis will be enhanced to ensure greater multiplier impact, higher productivity and continuous benefits to the rakyat. The economic sector continues to receive the largest allocation at 63.4% followed by social (24.6%), security (9.4%) and general administration (2.6%) sectors. A large portion of the allocation is for the completion of various projects under the fourth rolling plan (RP) in the Tenth Malaysia Plan (10MP), which include infrastructure projects such as roads and bridges, schools, hospitals, housing as well as water

supply. Physical projects account for 77.5% or 8,168 projects under the 10MP, of which almost 70% have been completed. The allocation also includes projects under the National Key Result Areas (NKRAs) and National Key Economic Areas (NKEAs), such as rural basic infrastructure, urban public transportation and agriculture development especially in rubber and palm oil industries.

The **economic sector** is allocated RM26.8 billion (2013: RM24.6 billion), focusing on developing transport infrastructure, enhancing industrial and entrepreneurial development, improving public utilities as well as accelerating agriculture and rural development. The *transport subsector* is the largest recipient, constituting 30.4% or RM8.2 billion, mainly for construction, maintenance and upgrading of roads, bridges, railways, airports, ports and jetties. Ongoing projects, among others, are the construction and upgrading works of the Pan-Borneo route and access road to Samalaju Industrial Park (Bintulu), Teluk Kumbar – Penang International Airport road, Tanjung Karang – Teluk Intan road, Ayer Keroh – Malacca city centre route; the Gemas – Mentakab rail track; as well as Sandakan, Miri and Mukah airports.

The *trade and industry subsector* is allocated RM5.7 billion, accounting for 21.3% of the total economic sector in 2014. Almost half of the expenditure is channelled to programmes for small and medium enterprises (SMEs), industrial development of five regional corridors and tourism facilities. In order to enhance development of entrepreneurship, the National Entrepreneur Development Office will be established to formulate an entrepreneur development plan, which will create a platform for entrepreneurs as well as coordinate all activities related to entrepreneurship in Malaysia. To complement the initiative, the Malaysian Global Innovation & Creativity Centre (MaGIC), a one-stop centre to empower entrepreneurs, was established in Cyberjaya. MaGIC provides a comprehensive ecosystem for entrepreneurs with services such as an integrated database, incubators, business

TABLE 4.4

Federal Government Development Expenditure by Sector 2013 – 2015

	RM million			Change (%)			Share of Total (%)		
	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²
Economic	24,645	26,783	29,260	-14.8	8.7	9.2	58.4	63.4	60.3
of which:									
Agriculture and rural development	2,692	3,094	3,166	41.2	14.9	2.3	6.4	7.3	6.5
Trade and industry	6,244	5,702	7,775	23.8	-8.7	36.3	14.8	13.5	16.0
Transport	8,152	8,152	8,697	-19.0	0.0	6.7	19.3	19.3	17.9
Social	10,884	10,390	12,618	-12.2	-4.5	21.4	25.8	24.6	26.0
of which:									
Education and training	6,438	4,860	5,582	-14.7	-24.5	14.9	15.3	11.5	11.5
Health	1,738	1,704	1,702	-6.7	-2.0	-0.1	4.1	4.0	3.5
Housing	852	924	2,293	62.5	8.5	148.3	2.0	2.2	4.7
Security	4,649	3,969	4,932	5.4	-14.6	24.3	11.0	9.4	10.2
General administration	2,032	1,080	1,690	71.1	-46.8	56.5	4.8	2.6	3.5
Total	42,210	42,222	48,500	-10.1	0.03	14.9	100.0	100.0	100.0
% of GDP	4.3	3.9	4.1						

¹ Revised estimate.² Budget estimate, excluding 2015 Budget measures.

matching process, registration of intellectual property, funding facilities as well as advisory and training programmes.

The *agriculture and rural development subsector* is provided RM3.1 billion or 11.6% of total allocation for the economic sector in 2014. A substantial allocation is given to implement high value-added and commercially-viable agriculture programmes to modernise the agriculture subsector in order to raise income of farmers. The Government has established the Food and Agro Council for Export (FACE) that will act as a facilitator to increase exports of local agricultural produce. In addition, to ensure fair prices of food products through direct distribution to consumers, several initiatives have been implemented, including an additional 60 Pasar Tani, 39 Fishermen's Markets, 100 Gerai Buah-buahan Segar and 30 Agrobazaar Kedai Rakyat.

The allocation for the **social sector** amounting to RM10.4 billion is the second largest component in development expenditure. An amount of RM4.9 billion or 46.8% of social sector spending is set aside for the *education and training subsector*, reflecting the importance of investing in human capital development towards achieving a high-income, knowledge-intensive and innovation-led economy. Major projects include the construction of 33 new schools and upgrading facilities in universities and training institutions as well as providing grants for skills training.

Under the *health subsector*, RM1.7 billion or 16.4% is allocated in 2014 mainly for upgrading and maintaining hospitals and clinics as well as purchase of medical equipment, in line with the emphasis to provide better quality healthcare and accessibility to health services. Major ongoing

projects include the construction of additional blocks for Hospital Queen Elizabeth, Kota Kinabalu and Hospital Jeli, Kelantan as well as a new hospital in Tanjung Karang, Selangor. In addition, the upgrading of Hospital Kuala Lipis, Pahang will be expedited to ensure continued medical and health services. Substantial allocation is also provided to strengthen healthcare services, including the setting up of 50 1Malaysia Clinics and 35 rural clinics.

The allocation of RM924 million for the *housing subsector*, will be utilised to build quality and affordable houses as well as rehabilitation and maintenance of public houses. A sum of RM382 million is allocated for Program Perumahan Rakyat (PPR) for the poor and low-income groups while RM400 million is allocated for PR1MA to build houses in strategic locations, including Nusajaya, Seremban, Sungai Petani and Teluk Intan. Expenditure under the subsector is also for maintenance of low-cost housing and rehabilitation of abandoned housing projects. In addition, to encourage private developers to build more affordable housing in high demand areas, the MyHome Scheme was introduced in March 2014, which provides a subsidy of RM30,000 for each unit built on private land, with maximum selling price of RM45,000 for low-cost and below RM170,000 for medium-cost houses.

National security and public safety remain the priority of the Government. The **security sector** will be allocated RM4 billion in 2014 to strengthen and enhance defence and internal security. The bulk of the allocation will be channelled to improve surveillance, upgrade and purchase of equipment, as well as build and refurbish quarters, army camps and district police headquarters to improve public safety and national security. Expenditure for the **general administration sector** is expected to register RM1.1 billion in 2014. The allocation is mostly to purchase and upgrade ICT systems in Government departments. This is to improve the service delivery system as well as ensure fast and smooth business process to facilitate private sector activity.

Financing

Financing needs sourced domestically

The Federal Government gross borrowings are projected to be lower in line with the consolidation measures as reflected in smaller deficit financing requirements. Borrowings are mainly to finance development expenditure, a strict rule observed by the Government. Given the ample liquidity in the financial market, funding requirements will be raised through domestic sources and are not expected to crowd out the private sector. In 2014, gross borrowings are expected to amount to RM84.7 billion with RM84.5 billion raised from domestic sources. After taking into account RM47.6 billion for redemption of existing loans, the net borrowing of RM37.1 billion will be used to finance the deficit.

TABLE 4.5

Federal Government Financing 2013 – 2014

	RM million		Share (%)	
	2013	2014 ²	2013	2014 ²
Gross borrowings	100,870	84,687	100.0	100.0
Domestic	100,457	84,500	99.6	99.8
GIs	41,000	33,500	40.7	39.6
MGS	59,457	51,000	58.9	60.2
External	413	187	0.4	0.2
Market loans	-	-	-	-
Project loans	413	187	0.4	0.2
Repayments	61,565	47,556	100.0	100.0
Domestic	60,931	46,943	99.0	98.7
External	634	613	1.0	1.3
Net borrowings	39,305	37,131	-	-
Domestic	39,526	37,557	-	-
External	-221	-426	-	-
Change in assets¹	-721	160	-	-
Total financing needs	38,584	37,291	-	-

¹ (+) indicates a drawdown of assets.

² Estimate.

In 2014, RM51 billion will be raised through the issuance of Malaysian Government Securities (MGS) and RM33.5 billion through Government Investment Issues (GIIs). MGS remains the largest source of funding at 60.4% of total gross domestic borrowings. The issuance of GIIs has steadily increased in recent years as a result of growing demand for high-quality Shariah-compliant debt papers. GIIs now account for 39.6% of gross domestic borrowings compared to below 20% prior to the global economic crisis in 2008. MGS and GIIs papers are expected to be raised through open tenders to leverage on the low interest rate and ample liquidity in the market as well as further develop a deep and stable capital market.

The gross borrowing of MGS will be raised through new issuances and re-opening of existing papers amounting to RM51 billion, of which RM26.4 billion will be used for repayment of matured papers. In response to market demand for longer maturity sovereign debt papers, four MGS with maturity of more than 10 years have been issued. The coupon rates of new MGS issuances ranged from 3.394% to 4.181% during the first eight

months of 2014. Meanwhile, GIIs raised in 2014 will constitute a mixture of a new issuance and re-opening of existing GIIs amounting to RM33.5 billion. To meet niche demand for longer-dated issues and to further develop the Islamic capital market, five issuances with longer-dated papers of 10 to 20 years have been issued.

Gross offshore borrowing for 2014 will continue to decline in the absence of new external issuance envisaged for the year. A sum of RM187 million is expected to be drawn down from bilateral (RM184 million) and multilateral sources (RM3 million) to finance ongoing projects and programmes related to higher education, research and training as well as raw water transfer.

Debt

Debt remains manageable

The Government will ensure that its debt level remains manageable through the implementation of sound macroeconomic policies, adherence to fiscal rules and regulations as well as

TABLE 4.6

Federal Government Debt 2013 – 2014

	RM million		Share of Total (%)		Share of GDP (%)	
	2013	2014 ¹	2013	2014 ¹	2013	2014 ¹
Domestic debt	523,095	552,652	96.9	97.1	53.0	51.3
Treasury bills	4,320	4,320	0.8	0.7	0.4	0.4
GIIs	172,500	188,000	32.0	33.0	17.5	17.4
MGS	305,075	315,532	56.5	55.5	30.9	29.3
Housing Loan Fund	41,200	44,800	7.6	7.9	4.2	4.2
Offshore borrowing	16,763	16,241	3.1	2.9	1.7	1.5
Market loans	10,791	10,545	2.0	1.9	1.1	1.0
Project loans	5,971	5,696	1.1	1.0	0.6	0.5
Total	539,858	568,893	100.0	100.0	54.7	52.8
<i>Memorandum item:</i> Non-resident holdings of ringgit-denominated Government debt securities	141,669	155,619	26.2	27.4	14.4	14.4

¹ End-June 2014.

prudent debt management strategies. As at end-June 2014, the **Federal Government debt** registered RM568.9 billion mainly due to higher domestic debt issuance to meet financing requirements. Of this, the debt which is raised domestically accounted for 97.1% or RM552.7 billion with MGS and GIs constituting 91.1%, while the offshore borrowing amounted to RM16.2 billion. The major holders of MGS and GIs include banking institutions (27.5%), Employees Provident Fund (21.8%), and insurance companies (6.2%) while the foreign holdings have increased to 30.5%. The healthy demand from external investors is due to them seeking safe-haven and better quality debt instruments which give higher yields, amid excess liquidity and volatility in the global financial market. The growing foreign presence in the capital market also reflects confidence in Malaysia's macroeconomic fundamentals and

growth prospects. Hence, the Federal Government debt stood at 52.8% of GDP as at end-June 2014, within the prudent and manageable level of 55% of GDP.

Despite the increasing debt level, the Government will ensure its commitments to debt servicing will be met accordingly. Debt service charges, which refer to interest payments on loans, are expected to remain manageable at 10.3% of revenue (2013: 9.7%), well below the threshold of 15% of total revenue under the administrative fiscal rules.

Following the redefinition of **external debt**, Malaysia's external debt will now comprise offshore borrowing by the Federal Government, public enterprises and the private sector as well as non-resident holdings of ringgit-denominated

TABLE 4.7

External Debt 2013 – 2014

	RM million		Share of Total (%)		Share of GDP (%)	
	2013	2014 ³	2013	2014 ³	2013	2014 ³
Offshore borrowing	324,088	335,572	46.5	46.0	32.8	31.1
Medium and long-term debt	195,986	204,816	28.1	28.1	19.9	19.0
Public sector	98,904	98,662	14.2	13.5	10.0	9.2
Federal Government	16,763	16,241	2.4	2.2	1.7	1.5
Public enterprises	82,141	82,421	11.8	11.3	8.3	7.7
Private sector	97,082	106,154	13.9	14.6	9.8	9.8
Short-term debt	128,102	130,756	18.4	17.9	13.0	12.1
Non-resident holdings of ringgit denominated debt securities	229,674	243,002	33.0	33.4	23.3	22.5
Medium and long-term debt	151,100	167,250	21.7	23.0	15.3	15.5
Federal Government	140,397	154,282	20.2	21.2	14.2	14.3
Others ¹	10,703	12,968	1.5	1.8	1.1	1.2
Short-term debt	78,574	75,752	11.3	10.4	8.0	7.0
Non-resident deposits	77,325	86,186	11.1	11.8	7.8	8.0
Others²	65,523	64,274	9.4	8.8	6.7	6.0
Total	696,610	729,034	100.0	100.0	70.6	67.6

¹ Includes private sector and public enterprises.

² Comprise trade credits, IMF allocation of Special Drawing Rights and miscellaneous.

³ End-June 2014.

debt securities, non-resident deposits, trade credit provided by foreign trade counterparts and other debt liabilities. As at end-June 2014, the newly-defined external debt stood at RM729 billion or 67.6% of GDP, of which public sector offshore borrowing accounted for only 9.2% of GDP while the private sector, 21.9% of GDP and non-resident holdings of ringgit-denominated debt securities, deposits and trade credit, 36.5% of GDP. The higher external debt was attributed mainly to larger offshore borrowing by the private sector and non-resident holdings of ringgit-denominated debt securities and deposits.

Offshore borrowing accounted for RM335.6 billion or 46% of total external debt as at end-June 2014. The increase was contributed by higher net borrowing of medium and long-term debt by the non-bank private sector as well as the public enterprises, while Federal Government offshore debt remains unchanged at RM16.2 billion. On the other hand, the increase in short-term offshore borrowing was due to higher interbank

borrowing activities. As at end-June 2014, the debt service ratio for offshore borrowing, which measures the principle and interest repayment of the loan to gross exports of goods and services, stood at 8.3%.

The non-resident holdings of ringgit-denominated debt securities issued by the Federal Government and other corporations increased to RM243 billion as at end-June 2014, on account of large holdings of medium and long-term debt securities. The increased holding of medium and long-term debt papers indicates investor confidence in the domestic economy together with the higher yields of these maturities, as well as reflects the deeper, more open and vibrant domestic financial markets. Of significance, the strong capacity of domestic institutional investors, resilient financial institutions, well-developed capital markets as well as ample international reserves, are able to absorb any reversal of capital flows and financial market shocks.

The Redefinition of Malaysia's External Debt

There are several accepted conventions in the classification of the external debt of a country. The standard practice is when most cross-border debt flows were accounted for by residents raising financing in foreign currencies in more developed financial markets. This was in fact the practice adopted by Malaysia, where external debt consisted only of foreign currency-denominated debt, namely loans raised, and bonds and notes issued offshore.

The International Monetary Fund (IMF), et al. (2013)¹ have proposed a wider coverage for external debt, which takes into account the non-resident holdings of local-currency denominated debt papers and other debt-related non-resident financial flows, such as trade credit, currency and deposits, and other loans and liabilities (see Table 1). Under this new definition, the external debt would include all liabilities that require payment of principal and/or interest at some point in the future, and are owed to non-residents by residents of an economy irrespective of the currency denomination of the debt.

Over the last decade, Malaysia's financial markets have developed significantly amid progressive financial sector liberalisation. Consequently, Malaysia's bond market is now the largest in Southeast Asia and the second largest in Asia (ex-Japan), while non-resident participation in domestic financial markets has increased significantly.

¹ International Monetary Fund (IMF), Bank for International Settlements (BIS), the Commonwealth Secretariat (Comsec), Eurostat, the Organization for Economic Co-operation and Development (OECD), the Paris Club Secretariat, the United Nations Conference on Trade and Development (UNCTAD) and the World Bank, 2013, External Debt Statistics: Guide for Compilers and Users, Washington.

TABLE 1

Components of Malaysia's Previous and Redefined External Debt

External debt by maturity & instruments	Previous	Redefined
Short-term		
Inter-bank borrowing (FX)	√	√
Inter-company borrowing (FX)	√	√
Other loans*	√	√
Trade credits		√
Non-resident holdings of domestic money market instruments		√
Currency and deposits		√
Other liabilities**		√
Long-term		
Bonds issued abroad (FX)	√	√
Inter-company borrowing (FX)	√	√
Other loans* (FX)	√	√
Trade credits		√
Non-resident holdings of domestic bonds		√
Other liabilities**		√

* Includes non-related company borrowing

** Other liabilities refer to IMF allocation of SDRs, and liabilities of pension funds and life insurance companies to non-resident

FX: Foreign currency

With this redefinition, Malaysia's external debt stood at RM729 billion (USD224.7 billion or 67.6% of GDP) as at end-June 2014, compared to RM335.6 billion or 31.1% of GDP under the previous definition. The newly defined external debt reflects the high level of non-resident holdings of ringgit-denominated debt securities that accounted for about two-thirds of the increase in the external debt following the redefinition. This is the outcome of the greater depth, openness and attractiveness of Malaysia's financial markets.

Since these debt securities are ringgit-denominated obligations, the potential for currency mismatches in the country's external indebtedness is reduced. It is also crucial to note that the Federal Government offshore debt remains unchanged. The redefinition of external debt is a prudential measure which allows the Government to better assess its exposure to non-residents. Importantly, although the redefined external debt level is higher, Malaysia's external indebtedness indicators remain well above the standard international benchmark for prudence and external soundness.

The redefinition of external debt, in essence, consolidates debt statistics that are already publicly available. Moreover, given the rapid deepening and diversification of the Malaysian financial market (Chart 2), the published data would be disaggregated to indicate the nature of Malaysia's external debt position, particularly the growing participation of non-residents in the markets. It is noteworthy that the prevalence of higher external debt amid the growing depth and sophistication of domestic capital markets is a general observation for countries moving to more developed financial markets, as was the case with Hong Kong SAR China and Singapore (Chart 3).

CHART 1

Malaysia's Redefined External Debt

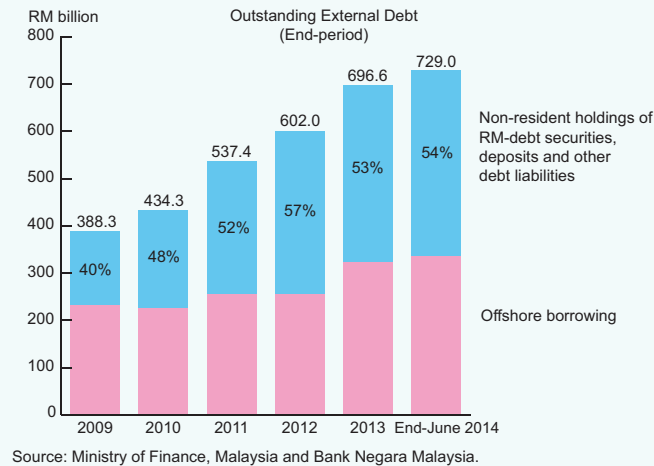


CHART 2

Malaysia's Local Bond Market among the Largest in Asia Excluding Japan

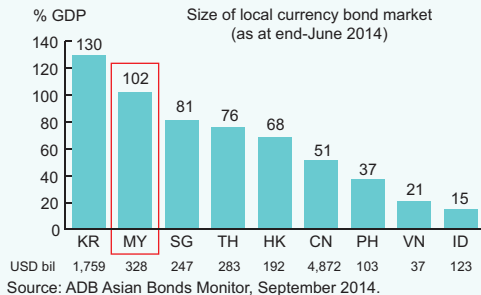
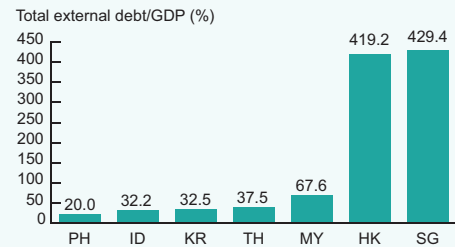


CHART 3

Malaysia's External Debt Position Relative to Other Regional Countries



External Robustness

Malaysia's external position remains robust, underpinned by the country's strong economic fundamentals:

- Growing participation of domestic institutional players in Malaysia's capital market.** In the event of a sell-off by non-residents, domestic players, particularly the well-diversified institutional investors, have the capacity to absorb the ringgit-denominated papers. This would mitigate the risk of disruptive price movements in the financial markets. Malaysia now has several large institutional investors, a more developed insurance industry and a larger fund and wealth management industry that could absorb these ringgit-denominated papers.

- **Greater ability to withstand market and financial shocks.** Given the more developed financial system and stronger financial intermediaries, the country would be less susceptible to any financial stress stemming from volatile capital flows. In addition, an adequate level of reserves to finance such short-term external debt (reserves-to-short-term external debt ratio of 1.2 times, higher than the 1:1 minimum international ratio), the continued current account surplus, coupled with sizeable liquid foreign assets in the banking sector, would also provide additional buffers against any external shocks to the economy.

TABLE 2

Malaysia's External Indebtedness Indicators

	Standard international threshold	Malaysia's external debt, end-June 2014	
		Previous definition	Redefined
Reserves / ST external debt (times)	1.0	3.2	1.2
Total external debt / GDP (%)	60 – 90	31.1	67.6
ST external debt / Total external debt (%)	n.a.	39.0	47.6
ST external debt / Exports of goods & services (%)	Smaller is better	15.4	40.8
n.a.: not applicable Source: Reinhart, Carmen and Kenneth Rogoff, "Growth in a Time of Debt", American Economic Review, May 2010; Guidotti-Greenspan rule, IMF and Bank Negara Malaysia.			

The robustness of Malaysia's external position was evident following the Federal Reserve's announcement of its intentions to scale back its quantitative easing measures in May 2013. Amid high global financial market volatility and uncertainty in response to the announcement, emerging market economies, including Malaysia, experienced large capital reversals. Nevertheless, Malaysia's financial system remained resilient and stable with no disruption to financial intermediation.

The redefinition of Malaysia's external debt is, therefore, assessed to be timely, so as to better consolidate Malaysia's external financial obligations in a transparent manner, and to reflect the extent of the advancement in Malaysia's financial markets over this recent decade.

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State Governments

Financial position records small deficit

The consolidated financial position of the 13 state governments is expected to register a small deficit of RM448 million in 2014 compared with a surplus of RM3.2 billion in 2013 due to higher development expenditure. The overall deficit is financed by Federal Government loans and the use of accumulated financial assets of state governments. Total revenue is estimated to decline 13.7% to RM20.3 billion (2013: 9.7%; RM23.6 billion) due to lower collection mainly from land premium and investment income. State-owned sources constitute almost 79% while the balance is grants from the Federal Government. Land premium and taxes, petroleum

and forestry royalties, indirect taxes as well as investment income represent 71.1% of the state-owned sources. To improve revenue collection, state governments are focusing on assessment arrears and unpaid dues as well as revising rates for selected levies on forestry and water rental.

The state governments' expenditure is expected to increase 3.4% to RM21.4 billion in 2014 (2013: 18.7%; RM20.7 billion). Operating expenditure is estimated at RM12.2 billion, of which emoluments as well as supplies and services account for 60.3% while the balance includes asset acquisition and transfers. In line with efforts to provide better services and public amenities, development expenditure is expected to increase to RM9.2 billion (2013: RM7.7 billion). Of this, RM4.4 billion is allocated for the economic sector, mainly for improving water supply, developing industrial areas, food industries, and livestock farming as well as upgrading and repairing roads, bridges and jetties. The expenditure for the social sector amounting to RM4.3 billion is primarily for housing, education and training as well as community and rural development programmes and projects. The state governments will continue to emphasise prudent financial management while enhancing efficiency and productivity.

TABLE 4.8

Consolidated State Governments Financial Position 2013 – 2014

	RM million		Change (%)	
	2013	2014 ¹	2013	2014 ¹
Current account				
Revenue	23,557	20,323	9.7	-13.7
Operating expenditure	12,986	12,216	27.7	-5.9
Current account balance	10,571	8,107	-6.6	-23.3
Development expenditure				
Gross development expenditure	7,691	9,169	6.1	19.2
Development fund	7,574	8,976	5.9	18.5
Water supply fund	117	193	20.7	65.2
Less: Loan recovery	272	614	-0.8	125.6
Net development expenditure	7,419	8,555	6.3	15.3
Overall balance	3,152	-448	-27.3	-114.2
% of GDP	0.3	-0.04		

¹ Estimate.

General Government

Lower deficit level

The financial position of the general government, which consists of consolidated accounts of the Federal Government, state governments, local authorities and statutory bodies after netting intra-government transfers and lending, is estimated to record a deficit of RM36.2 billion or 3.4% of GDP in 2014. The lower deficit is due to higher revenue mainly from the Federal Government, local authorities and statutory bodies as well as more prudent spending.

TABLE 4.9

Consolidated General Government Financial Position 2013 – 2015

	RM million			Change (%)		
	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²
Current account						
Revenue	250,803	259,948	272,877	0.2	3.6	5.0
Operating expenditure	237,021	244,461	250,147	4.1	3.1	2.3
Current account balance	13,782	15,487	22,730	-38.8	12.4	46.8
Development expenditure	51,984	51,727	58,756	-2.1	-0.5	13.6
Overall balance	-38,202	-36,240	-36,026	-25.0	5.1	0.6
% of GDP	-3.9	-3.4	-3.1			

¹ Revised estimate.² Budget estimate, excluding 2015 Budget measures.

Non-Financial Public Enterprises

Higher capital expenditure

The performance of Non-Financial Public Enterprises (NFPEs), as a group, continues to strengthen with revenue expected to increase on account of strong income growth, particularly in oil and gas, energy and telecommunication sectors. Despite higher current expenditure, the retained income or current surplus of NFPEs is expected to register RM67.1 billion in 2014. Capital expenditure is anticipated to increase significantly, reflecting sizeable domestic and overseas investment activities. Hence, the consolidated financial position of NFPEs is expected to register a deficit of RM36.3 billion. Despite a challenging operating environment, NFPEs are expected to be more resilient and continue to perform well. The NFPEs continue to play an important role in the economy through their involvement in capital formation and job creation.

The consolidated revenue is projected to grow 6.8% to RM480 billion (2013: 6.7%; RM449.4 billion). The better revenue out-turn is mainly attributed to sustained petroleum prices, increased

returns from overseas investment, strong demand for telecommunications and construction-related activities as well as a revision in energy tariffs. Among the main contributors to the consolidated revenue are PETRONAS, Tenaga Nasional Berhad, Axiata Group Berhad, UEM Group Berhad, Telekom Malaysia Berhad and Boustead Holdings Berhad. Meanwhile, the consolidated current expenditure of NFPEs is anticipated to grow 12.1% to RM412.9 billion in 2014 in line

TABLE 4.10

Consolidated NFPEs¹ Financial Position 2013 – 2014

	RM million		Change (%)	
	2013	2014 ²	2013	2014 ²
Revenue	449,438	480,041	6.7	6.8
Current expenditure	368,316	412,896	4.5	12.1
Current surplus	81,122	67,145	17.7	-17.2
Capital expenditure	81,475	103,465	-4.5	27.0
Overall balance	-353	-36,320	-	-
% of GDP	-0.04	-3.4		

¹ Refers to 30 major NFPEs in 2013 and 29 in 2014.² Estimate.

with higher operation cost in the oil and gas sector, increased cost of sales in electricity and energy sector as well as the expansion in business and commercial activities.

Driven by the need to strengthen future earnings, leverage investment opportunities as well as generate stronger shareholder values, the capital expenditure of the NFPEs is estimated to increase markedly by 27% to RM103.5 billion (2013: -4.5%; RM81.5 billion). The capital expenditure is concentrated on oil and gas exploration and generation activities; expansion of electricity power stations, upgrading transmission and distribution network; enhancement of infrastructure for air and rail transportation; as well as expanding and modernising telecommunication infrastructure. Among the major projects include Refinery and Petrochemical Integrated Development (RAPID) in Pengerang, Sabah Oil and Gas Terminal as well as Liquefied Natural Gas (LNG) Train 9 in Bintulu; construction of MRT and extension of LRT lines; construction of an electricity power plant in Manjung and Seberang Perai; high-speed broadband and mixed property development in Nusajaya.

Consolidated Public Sector

Current balance remains in surplus

The consolidated public sector financial position, which comprises the general government and the NFPEs, is expected to register a current surplus of RM82.4 billion, following higher revenue receipts. However, with the higher capital expenditure of the NFPEs, the overall deficit of the consolidated public sector, after netting out all transfers and net lending, is estimated to record RM72.6 billion or 6.7% of GDP in 2014 (2013: RM38.6 billion; 3.9%).

Prospects for 2015

Fiscal consolidation to continue

The strong domestic economic outlook is a conducive factor to further improve the Government's fiscal consolidation efforts. In addition, the improving external sector reinforced with ongoing structural reforms will further strengthen the Government's fiscal position.

TABLE 4.11

Consolidated Public Sector Financial Position 2013 – 2015

	RM million			Change (%)		
	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²
Revenue	191,554	210,007	223,925	1.5	9.6	6.6
Operating expenditure	236,610	244,189	249,908	4.1	3.2	2.3
NFPEs current surplus	139,821	116,612	111,957	7.7	-16.6	-4.0
Public sector current balance	94,765	82,430	85,974	3.8	-13.0	4.3
Development expenditure	133,345	155,018	160,789	-3.6	16.3	3.7
General government	51,870	51,553	58,594	-2.2	-0.6	13.7
NFPEs	81,475	103,465	102,195	-4.5	27.0	-1.2
Overall balance	-38,580	-72,588	-74,815	18.0	-88.1	-3.1
% of GDP	-3.9	-6.7	-6.4			

¹ Estimate.

² Budget estimate, excluding 2015 Budget measures.

With private investment activity continuing to accelerate, public spending will focus on high-impact programmes and projects that promote capacity building and enhance efficiency. In addition, the fiscal reform initiatives will be pursued with fiscal adjustment measures and formulation of medium-term fiscal strategies. Hence, the Federal Government's financial position is forecast to further strengthen in 2015 with the deficit level declining to 3% of GDP (2014: 3.5%). The consolidation plan in 2015 will be contributed by a reduction of 1.5 percentage point in operating expenditure as a share of GDP, mainly from more cautious spending of supplies and services as well as continuous subsidy rationalisation. This reflects the Government's commitment towards fiscal consolidation to achieve a balanced budget by 2020.

Federal Government revenue in 2015 is projected to grow more than the total expenditure to register RM235.2 billion. Despite a declining trend in oil-related revenue, non-oil revenue is expected to grow 9.3%, higher than the rate of nominal GDP growth of 9%. The revenue forecast has also taken into account measures to broaden the tax revenue base, in particular the implementation of the GST. Tax revenue is expected to increase 6.8% mainly from higher collection of corporate income tax and GST. Meanwhile, individual income tax collection will be marginally lower due to the reduction of individual income tax rates by one to three percentage points in line with the measures and assistance to ease the burden of the rakyat during the GST implementation period.

Total Federal Government expenditure in 2015 is budgeted to grow moderately to RM271.9 billion (2014: RM263.3 billion), of which RM223.4 billion is for operating expenditure while the balance of RM48.5 billion is for development expenditure. The operating expenditure, which will increase marginally, is in line with prudent and more stringent

allocation with thorough screening and evaluation without compromising service delivery. The bulk of the allocation will be channelled to charged expenditure, such as debt service charges, pensions and gratuities as well as locked-in expenditure including emoluments and subsidies.

As for development expenditure, 2015 will represent the balance of the 10MP allocation. In order to achieve expenditure efficiency, the Government will ensure greater scrutiny of project scope and implement projects that will have higher multiplier effect to benefit a larger segment of the population. A larger share of RM29.3 billion will be given to the economic sector, which includes the five growth corridors and entrepreneur development; improving access and connectivity of urban public transport; construction and upgrading of roads, bridges, railways and airports; providing better coverage of electricity and water supply; as well as accelerating the development of rural infrastructure and agriculture programmes.

In order to improve the quality of life of the rakyat, RM12.6 billion will be allocated to projects and programmes under the social sector, with emphasis on better healthcare and affordable housing. In addition, to further enhance the country's competitiveness, human capital development will be intensified through education and training to produce high-skilled and knowledge-based workers, especially among the younger generation. With regard to defence and internal security, a significant portion of RM4.9 billion will be allocated to upgrade capabilities and capacity of the armed forces and police. As for the general administration sector, RM1.7 billion will be provided for upgrading government facilities as well as continuous enhancement of public service delivery.

The Government will continue to improve and strengthen its fiscal position while providing support to sustain economic growth as well as enhancing productivity and competitiveness.

Consistent with the fiscal reform initiatives, the introduction of the GST in April 2015 is aimed at streamlining the present structure of the consumption tax that will provide a fairer and comprehensive tax system. The GST will be more efficient, effective, transparent, socially equitable and business-friendly. Essentially, this will enhance tax compliance and broaden the tax base. In addition, the Government will gradually undertake the subsidy rationalisation

measures to ensure a more efficient and targeted subsidy, minimise leakages and curb smuggling activities. Savings from subsidy rationalisation will be used to finance more productive programmes and projects for the benefit of the rakyat. With strong fiscal institutions coupled with prudent financial management, the Federal Government financial position will further strengthen with the debt level trending lower and sustainable in the medium and long-term.