

SECTION 3:

FEDERAL GOVERNMENT EXPENDITURE

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SECTION 3: FEDERAL GOVERNMENT EXPENDITURE

Overview

Under the new Government administration, transparency in reporting Government's expenditure has been enhanced particularly by recognising and disclosing *off-budget* spending. The Government has also reviewed its public infrastructure spending policy particularly to address simultaneous implementation of multiple mega projects with relatively high cost. Therefore, in ensuring affordability and spending efficiency, the Government has decided to defer the implementation of several projects, review its scope and viability as well as renegotiate the contract value. In addition, the Government has reprioritised programmes and projects based on needs and urgency as well as introducing zero-based budgeting for 2019 Budget. Furthermore, the Government has also rationalised ministries and agencies to streamline roles and functions as well as improved the procurement procedures by enhancing related legal framework to avoid wastages and leakages.

Performance 2018

The original 2018 budget allocation comprising of operating expenditure (OE) and development expenditure (DE) was RM280.3 billion. However, the budget was revised upwards to RM290.4 billion. An additional expenditure of RM16.6 billion is provided, of which RM11.2 billion is channelled for OE and RM5.4 billion for DE. In addition, a total of RM6.5 billion savings is expected from reviewing of existing programmes and projects. Thus, the net increase in total expenditure is estimated at RM10.1 billion. In terms of total allocation by sector, after excluding charged and transfer expenditure, social sector leads as the highest recipient, constituting 36.4% from the total allocation, followed by economic (17.6%), security (11.2%), and general administration (6.3%) sectors.

For 2018, OE has been revised upwards to RM235.5 billion from the original budget allocation of RM234.3 billion. While additional

OE requirement is estimated at RM11.2 billion, the increment will be cushioned by expenditure savings of RM10 billion, which include reclassification of several development related items from OE to DE to reflect a more accurate reporting. Savings are also achieved mainly from reviewing of 2018 Budget measures and other existing programmes, which are considered not a priority and non-essential.

The additional OE requirements are mainly for fuel price stabilisation, special financial assistance, pensions, repairs and maintenance as well as cleaning and security services. Outlays for emoluments are expected to be higher by RM2.2 billion from the original budget, mainly due to special cash assistance to civil servants disbursed in January and June 2018. Meanwhile, an additional allocation of RM3.8 billion is required for supplies and services, particularly for hospital cleaning services, school security, asset and system maintenance. Retirement charges are estimated to increase by RM1.2 billion due to additional pension requirement and special cash assistance for pensioners. In addition, subsidies and social assistance are estimated to increase due to additional allocation of RM3 billion for fuel subsidies while additional transfers are estimated at about RM1 billion.

As compared to 2017, OE in 2018 is expected to increase by 8.2% largely due to the higher allocation for subsidies and social assistance, supplies and services, emoluments, debt service charges and retirement charges. The significant growth in subsidies and social assistance is mainly attributed to an increase in fuel subsidies as a result of the new Government's commitment to fulfilling their manifesto to stabilise fuel prices. However, moving forward, the Government will reintroduce a managed-float fuel pricing mechanism with targeted fuel subsidies for the low-income group. The rise in emoluments is primarily due to annual salary increments and higher cash assistance payments. Retirement charges are also estimated to increase to RM25.8 billion,

**Table 3.1. Federal Government Operating Expenditure by Object
2017 – 2019**

	RM million			Change (%)			Share (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Emoluments	77,036	81,327	82,045	5.4	5.6	0.9	35.4	34.5	31.6
Retirement charges	22,800	25,760	26,557	8.4	13.0	3.1	10.5	10.9	10.2
Debt service charges	27,863	30,882	33,000	5.2	10.8	6.9	12.8	13.1	12.7
Grants and transfers to state governments	7,109	8,023	7,571	2.4	12.9	-5.6	3.3	3.4	2.9
Supplies and services	34,738	36,501	29,068	15.5	5.1	-20.4	16.0	15.5	11.2
Subsidies and social assistance	22,354	28,128	22,269	-9.5	25.8	-20.8	10.3	11.9	8.6
Asset acquisition	516	576	673	-23.7	11.8	16.8	0.2	0.2	0.3
Refunds and write-offs	973	888	921	21.7	-8.7	3.7	0.4	0.4	0.4
Grants to statutory bodies	14,044	13,873	12,968	-5.2	-1.2	-6.5	6.5	5.9	5.0
Others	10,262	9,492	44,778	-11.3	-7.5	371.8	4.6	4.2	17.1
Total	217,695	235,450	259,850	3.6	8.2	10.4	100.0	100.0	100.0
Share of GDP (%)	16.1	16.4	17.0						

¹ Revised estimate.² Budget estimate, excluding 2019 Budget measures.

Source: Ministry of Finance, Malaysia.

in tandem with a higher number of pensioners and beneficiaries of around 812,000. In line with higher fiscal deficit in 2018, debt service charges are estimated to increase further to RM30.9 billion.

The 2018 DE allocation has been revised from RM46 billion to RM54.9 billion, an increase of 19.3% from the original Budget. The significant increase is due to additional DE requirement mainly for LRT3 project, housing and Electrified Double Track Project (EDTP). Other requirements include Government Integrated Radio Network (GIRN), highways and sewerage projects as well as the reclassification of development related items from OE. Of the total revised allocation, RM53.3 billion is direct allocation while RM1.6 billion is in the form of loan to state governments and Government-linked entities.

The Government has also managed to reduce a sum of RM3.5 billion from the original allocation. The reduction was achieved by reviewing and deferring projects with low priority, projects yet to be awarded and projects worth more than RM10 million with physical percentage progress of less than 15%. In addition, capital injections to various funds particularly facilitation fund were reduced

while projects without Letter of Acceptance were reviewed. The reduction has minimal impact on Government investment as most of the projects are at preliminary stages such as land acquisition and thus have a negligible effect on the economy.

The Federal Government's DE continues to form a major part of public investment through the disbursement of allocation to various sectors despite the rationalisation exercise. The economic sector is the largest recipient with a share of 60.2%, followed by social (26.4%), and security (9.7%) sectors. The remaining allocation was channelled to general administration sector with a share of 3.7% of the allocated amount.

The allocation for economic sector is projected to grow 36.5% from RM24.2 billion in 2017 to RM33 billion in 2018. The transport, trade and industry as well as energy and public utilities subsectors remain as the three highest recipients of the DE allocation under the economic sector, which constitute 28.2%, 12.2% and 6.2%, respectively. The allocation for social sector is also expected to expand 16.8% to RM14.5 billion. Education and training as well as health subsectors remain the priority under this sector.

In 2018, the security sector is allocated RM5.3 billion. The higher allocation is channelled to the defence subsector mainly for the purchase of military equipment and assets, upgrading of the communication satellite, and development of Eastern Sabah Security Command (ESSCOM) army camp. In addition, the allocation is provided for the development of GIRN under the internal security subsector. Meanwhile, the expenditure for *general administration* sector in 2018 is estimated at RM2 billion mainly for ICT projects and upgrading of Government buildings and office equipment.

Overall, in terms of DE allocation by ministry and agency, the three largest recipients are the Ministry of Finance, Ministry of Works and Prime Minister's Department. The allocation for the three ministries constitutes 40.9% of the total allocation. In addition, the Ministry of Rural Development receives 9.1% while Ministry of Education 8.1%.

Outlook 2019

The Federal Government continues to spend towards strengthening and stimulating the growth of the economy; and enhancing the standards of living of the rakyat. Competency, accountability and transparency are the key governing principles to ensure transparent and good practices in the current public expenditure management. Thus, the Government has formulated its budget by implementing zero-based budgeting in line with MTFF. Based on this approach, the Government has reviewed its expenditure items based on requirements and capacity to improve spending efficiency without affecting public service delivery. In addition, the Government has also reviewed its allocation on transfers to statutory bodies and Government-linked companies with high cash reserves. This is in tandem with the effort to further strengthen the country's fiscal position, as well as ensuring the prudent spending and efficient use of public resources.

A total of RM314.6 billion is budgeted for Federal Government's expenditure in 2019. Of this, RM259.9 billion or 82.6% will be allocated for OE, while the balance of RM54.7 billion

will be spent for DE. As a percentage of GDP, the budgeted amount is 0.3 percentage points higher than the 2018 revised estimates. In terms of sector, after excluding charged and transfer expenditure (36.1%), 34% will be allocated for the social sector, followed by economic (14.2%), general administration (6%) and security (9.7%) sectors.

OE allocation of RM259.9 billion is 10.4% higher year-to-year with the largest allocation is for emoluments (31.6%) followed by debt service charges (12.7%), supplies and services (11.2%) and retirement charges (10.2%). For 2019, a sum of RM37 billion is allocated for payment of outstanding tax refund comprising of RM18 billion income tax refund and RM19 billion GST refund. A share of 56.7% from OE is provided for emoluments and charged expenditures, which include debt service charges, retirement charges as well as grants and transfers to state governments under the Federal Constitution. Top three ministries receiving the highest allocation, which constitutes 40.3% of total OE are the Ministry of Education (post-merger with Ministry of Higher Education), Ministry of Health and Ministry of Finance with allocation amounting RM55.1 billion, RM26.5 billion and RM23 billion, respectively. In terms of OE by sector, after excluding charged expenditures and transfer payments (43.5%), the social sector will receive the highest allocation (35.3%) followed by security (9.1%), general administration (6.1%) and economic (6%) sectors.

Emoluments for 2019 are estimated to increase to RM82 billion. About 67% of emoluments are allocated to the Ministry of Education and Ministry of Health to remunerate about 834,000 civil servants in both ministries comprising mainly teachers, doctors and nurses. Meanwhile, *retirement charges* are estimated to increase to RM26.6 billion. This is to accommodate about 836,000 pensioners and beneficiaries in 2019.

Supplies and services, another major component of OE, are expected to reduce to RM29.1 billion with 83.7% is allocated for payment of professional services, repair and maintenance services, raw and other material supplies as well as office rentals. The reduction is mainly attributed to the reclassification of items related to capital investment from OE to DE

and reduction in other supplies and services spendings following the reprioritisation of projects and programmes under zero-based budgeting. The Ministry of Health and Ministry of Education will receive the highest allocation which accounts for 34.5% and 12.8%, respectively.

Subsidies and social assistance, which comprises subsidies for goods and services, incentives and social assistance, are projected to decrease to RM22.3 billion. The decline is mainly due to the reintroduction of the managed-float system for RON95 petrol and diesel retail prices as well as restructuring of cash assistance namely Living Aid Assistance (BSH), formerly known as 1Malaysia People's Aid (BR1M). A sum of RM5 billion allocated for BSH is estimated to benefit 4.1 million recipients in 2019.

Grants to statutory bodies, which are mainly to finance their operational expenses including emoluments as well as supplies and services, are estimated to decline 6.5% to RM13 billion. The decline is mainly due to a reduction in transfers to entities with high cash reserves in line with the effort to reduce reliance on government grants. More than half of the grants will be directed to public universities and teaching hospitals, with the primary goal to uplift the education and training standards for students. The Federal Government also provides *grants and transfers to state governments* amounting to RM7.6 billion, of which RM5.5 billion (72.5%) are provided under the Federal Constitution.

Debt service charges or coupon payments on loans are constitutionally required to be met before all other discretionary expenditures. For 2019, debt service charges are expected to be higher at RM33 billion to reflect the accumulated deficits of Federal Government. The ratio of the charges to OE remains below the threshold of 15% under the administrative fiscal rules.

The Federal Government will continue to contribute to public investment in strengthening the economy and enhancing the wellbeing of the people. For 2019, a sum of RM54.7 billion is allocated for DE, a marginal decrease of 0.4% from 2018. This amount accounts for 24.9% of the revised Eleventh Malaysia Plan

(11MP) ceiling as tabled in the 11MP Mid-Term Review. In ensuring a more prudent Government financial management, infrastructure projects with high multiplier impact on the economy and programmes that are people-centric are given priority. 2019 is the fourth rolling plan (RP4: 2019 – 2020) under the 11MP comprising various programmes and projects aimed at increasing the capital investment, productive capacity and improve the standard of living.

The *economic sector* is allocated with RM29.2 billion in 2019 (2018: RM33 billion) and remains the largest recipient, constituting 53.4% of total DE. The sector will focus on the transportation system, trade and industry, energy and public utilities as well as agriculture and rural development, in tandem with the initiative to enhance competitiveness and raise the value chain of the economy. The transport subsector will be allocated the largest sum of RM13.4 billion, accounting 24.5% of total DE (2018: RM15.5 billion; 28.2%). The projects under the subsector cover the construction, maintenance and upgrading of roads, bridges, railways, airports, ports, jetties and rural infrastructure. Infrastructure for better connectivity will be improved including expanding road networks and construction of rural roads particularly in Sabah and Sarawak as well as increasing the capacity and efficiency of airports and ports. Ongoing projects in the transport subsector for 2019 include the Pan Borneo Highway, EDTP and construction of a new airport in Mukah, Sarawak.

A sum of RM5.7 billion or 10.5% of total DE will be allocated for the trade and industry subsector. The key strategy to enhance the subsector is to strengthen logistics and trade facilitation by adopting IR 4.0 initiatives through digitalisation of logistic services. Other strategies include enhancing entrepreneurship development and expanding capacity for agro-industry. In line with the role of SMEs as an engine of economic growth, the capacity and capability of SMEs will be further upgraded under the SME Masterplan, among others, through the integration of business registration and licences system.

The energy and public utilities subsector will receive RM4.6 billion or 8.4% of total DE. The priority of the allocation is to enhance

rural energy supply and public utilities which include expanding and increasing coverage of water and electricity supply, upgrading of dams, and constructing water treatment plants and pump houses. The environment subsector will be provided RM2.1 billion, an increase of 23.7% as compared to 2018 (RM1.7 billion). The allocation is for among others, construction of river-basins, upgrading of existing sewage treatment plants, restoration of rivers and sewerage pipelines as well as flood mitigation projects in several states such as Johor, Pahang and Pulau Pinang.

The social sector, the second largest DE recipient, will receive RM15.2 billion. For this sector, the access to basic services, predominantly education and healthcare, will be expanded further in efforts to bridge the urban-rural development gap. A sum of RM8.3 billion will be distributed to the education and training subsector primarily for improving school infrastructure and upgrading facilities in universities and training institutions. The balance of the subsector allocation will be channelled for R&D as well as technical and vocational education training (TVET) programmes.

In 2019, RM2.3 billion will be allocated to health subsector mainly for building and maintaining hospitals and health clinics, upgrading the existing healthcare facilities and procurement of medical equipment. This is in line with the emphasis to provide quality healthcare and increase accessibility to health services. Major ongoing projects include construction of Sri Aman Hospital, Putrajaya Hospital endocrine complex and multi-storey block for Hospital Seberang Jaya.

A sum of RM1.7 billion will be allocated for the housing subsector. This allocation will be utilised for People's Housing Project (PPR) and civil servants' quarters, rehabilitation of abandoned private housing projects as well as maintenance and repairs of public housing. In addition, access to affordable housing for targeted groups will be increased through incentivising developers to provide affordable housing as well as reviewing and increasing the access to house financing scheme. The initiative is in tandem with the Government's effort to improve the wellbeing of the rakyat through providing quality and affordable housing for the poor, low- and middle-income groups as well as improving access to affordable housing to the targeted groups.

**Table 3.2. Federal Government Development Expenditure by Sector
2017 – 2019**

	RM million			Change (%)			Share (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Economic	24,186	33,025	29,235	-3.7	36.5	-11.5	53.9	60.2	53.4
<i>of which:</i>									
Transport	10,429	15,501	13,388	33.2	48.6	-13.6	23.2	28.2	24.5
Trade and industry	3,800	6,686	5,721	-21.5	75.9	-14.4	8.5	12.2	10.5
Energy and public utilities	2,475	3,379	4,589	-15.4	36.5	35.8	5.5	6.2	8.4
Agriculture and rural development	2,219	2,191	2,278	-23.5	-1.2	3.9	4.9	4.0	4.2
Environment	2,061	1,725	2,134	-12.2	-16.3	23.7	4.6	3.1	3.9
Social	12,425	14,507	15,183	19.1	16.8	4.7	27.7	26.4	27.8
<i>of which:</i>									
Education and training	6,306	7,307	8,287	69.2	15.9	13.4	14.0	13.3	15.2
Housing	785	1,144	1,652	-64.9	45.8	44.4	1.7	2.1	3.0
Health	1,470	1,897	2,257	-1.7	29.1	19.0	3.3	3.5	4.1
Security	5,334	5,338	7,082	10.4	0.1	32.7	11.9	9.7	12.9
General administration	2,939	2,030	3,200	81.4	-30.9	57.6	6.5	3.7	5.9
Total	44,884	54,900	54,700	6.9	22.3	-0.4	100.0	100.0	100.0
Share of GDP (%)	3.3	3.8	3.6						

¹ Revised estimate.

² Budget estimate, excluding 2019 Budget measures.

Source: Ministry of Finance, Malaysia.

The *security sector* will be allocated RM7.1 billion to strengthen and enhance defence and internal security. The bulk of the allocation will be channelled to improve surveillance, upgrade and procurement of equipment to enhance public safety and national security. In addition, DE will be also used to build and refurbish quarters, army camps and district police headquarters to improve the welfare of security personnel.

The *general administration sector* will be allocated a sum of RM3.2 billion in 2019. The allocation will be mainly utilised for construction of new Government buildings; development of big data and project monitoring system; as well as upgrading and maintenance of Government infrastructure, security systems and facilities. Access to ICT will be enhanced to better leverage the data and information available, thus increasing the productivity of civil service. The programmes and projects under the sector will support the concerted Government efforts to enhance productivity, transparency and quality of the public service delivery. This is in tandem with the Pillar 1 Mid-Term Review of the 11MP to reform governance of the Government towards greater transparency and enhance the efficiency of public service.

Federal Recoverable Loans

The Federal Recoverable Loans is part of the Federal Government financial assets which consist of loan facilities given to the state governments, local government, statutory bodies, companies, cooperatives and various organisations. The lending is disbursed from Development Fund, Consolidated Revenue Account and other trust funds. As the Government is still using cash basis accounting, the amount disbursed from the Development Fund is classified as lending and form part of the DE. The lendings are mainly to finance programmes and physical projects such as enhancement and provision of water supply, water treatment and sewerage infrastructure as well as construction of public amenities and low-cost housing. The loan is also channeled to Government's entities for re-lending purposes for business loans to SMEs and micro-entrepreneurs programmes.

Thus, this loan policy will continue to support effort to increase the productive capacity of the economy.

As at 31 December 2017, the total outstanding Federal Recoverable Loans disbursed through the Development Fund was RM41.4 billion or 3.1% of GDP. Of the total, 49.1% is loans to companies with an outstanding amount of RM20.4 billion. In addition, state governments representing 38.2% (RM15.8 billion), statutory bodies 11.4% (RM4.7 billion), local governments 0.7% (RM0.3 billion), various organisations 0.6% (RM0.2 billion) and co-operatives 0.01% (RM6.1 million) of the total outstanding balance.

In 2018, current year loan disbursement via DE is estimated at RM1.6 billion, a decrease of 39% from RM2.6 billion in 2017. The largest recipients are companies involved in highway concession projects under the public private partnership (PPP) initiative which account for 56.1% of the total disbursements. Other recipients include state governments (37.2%), statutory bodies (5%) and various organisations (1.7%).

In terms of loan repayment, a total of RM562.5 million is expected to be received in 2018 as compared to RM785.8 million repayments in 2017. The repayments from state governments, companies, local governments, and statutory bodies are estimated at RM353.6 million, RM193.4 million, RM6.8 million, and RM2.5 million, respectively. The remaining of RM6.2 million is estimated to be collected from various organisations.

Loan repayment by state governments constitutes 62.9% of total repayment. Sarawak is expected to record the highest loan repayment amounting to RM166.8 million or 47.2% of the total state governments' loan repayment in 2018. Loan repayment from companies constitutes 34.4% of the total loan repayment. The top five payers with total repayment estimated at RM141.3 million are Felcra Berhad, Perbadanan Pengurusan Aset Air Berhad, Sabah Port Sdn. Bhd., Tabung Ekonomi Usahawan Nasional (TEKUN), and Prolintas Sdn. Bhd. For statutory bodies category, RM2.5 million is estimated to be received from Lembaga Kemajuan Terengganu

Tengah (KETENGAH), Lembaga Kemajuan Wilayah Kedah (KEDA), Lembaga Kemajuan Wilayah Pulau Pinang (PERDA) and Lembaga Perindustrian Kayu Malaysia (MTIB).

In 2019, total loan disbursement from the Development Fund is estimated at RM2 billion. The amount is expected to increase 27% from RM1.6 billion in 2018. The loan for companies is estimated at RM1.5 billion, state governments (RM464.8 million), statutory bodies (RM39.2 million) and various organisations (RM27 million).

Companies continue to be the largest recipient of the Federal Loan, constituting 73.7% of the total disbursement. The loan will be utilised mainly to fund programmes and projects aimed to improve the quality of life, rural development, road connectivity and access to financing. The programmes and projects include water supply improvement, electricity supply enhancement,

telecommunication services, sewage treatment system projects, land rehabilitation, oil palm replanting, highway constructions and lending to small-scale entrepreneurs. Meanwhile, the loans received by the state governments and statutory bodies will be used among others to finance the construction and upgrading of public amenities, water supply and sewerage infrastructure, affordable and low-cost public housing as well as regional and rural development.

The loan repayment in 2019 is estimated to increase 16.6% to RM656.1 million (2018: -28.4%; RM562.5 million). A total of RM407.9 million repayment is expected from state governments, an increase of 15.4% as compared to 2018. The rest of the loan repayment is anticipated from companies accounting for RM123.6 million, local governments (RM6.9 million), statutory bodies (RM111.5 million), and various organisations (RM6.2 million).

Figure 3.1. Total Expenditure by Sector

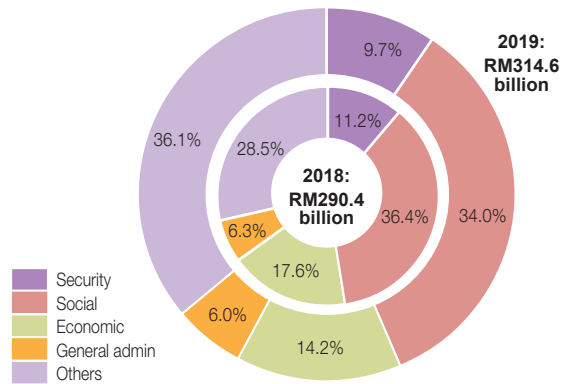


Figure 3.2. Operating Expenditure by Object
(% to total OE)

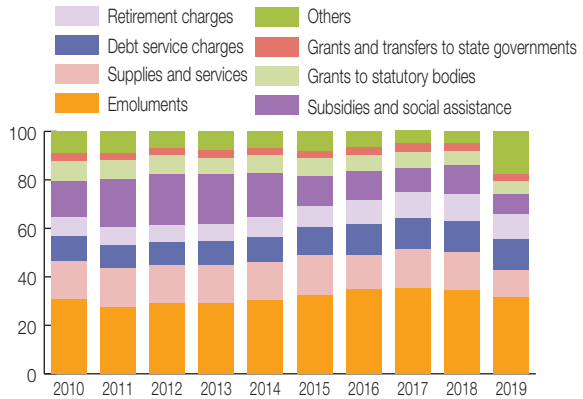


Figure 3.3. Development Expenditure by Sector

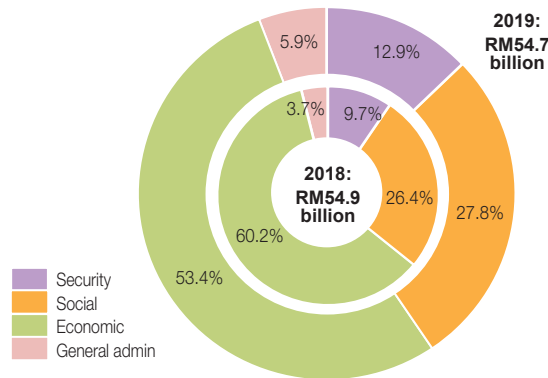


Figure 3.4. Operating Expenditure by Ministry and Agency

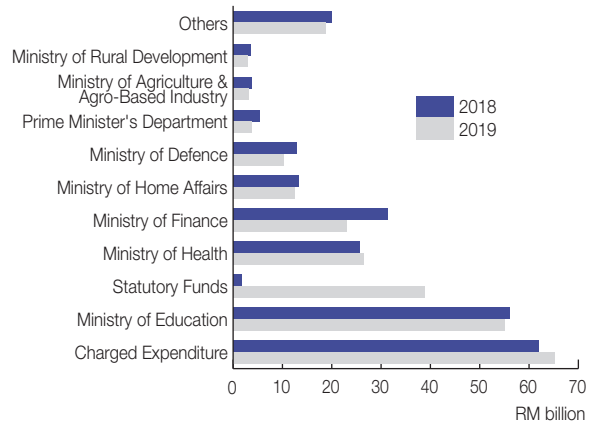


Figure 3.5. Development Expenditure by Ministry and Agency

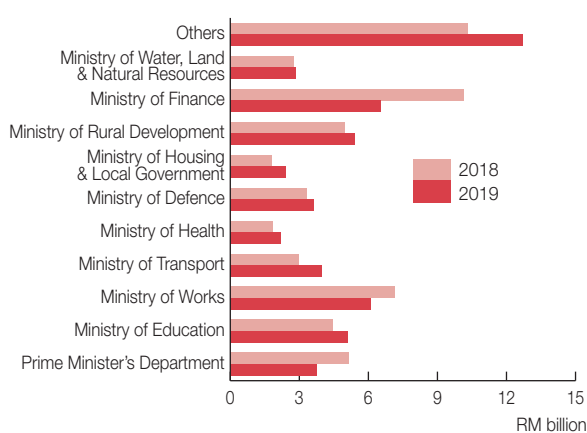
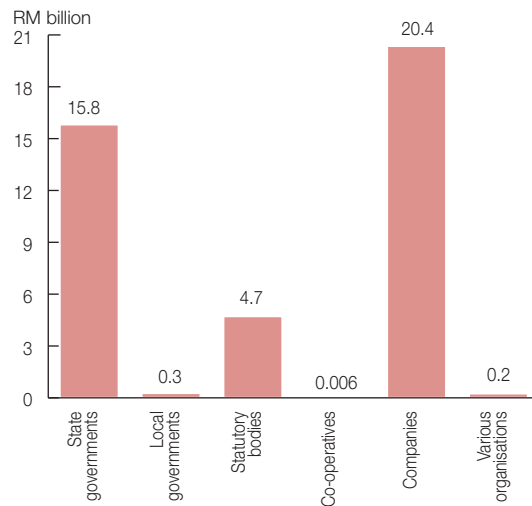


Figure 3.6. Federal Recoverable Loans under Development Fund by Debtor (End-2017)



Note: 2018: Revised estimate.
2019: Budget estimate, excluding 2019 Budget measures.
Source: Ministry of Finance, Malaysia.