

SECTION 6:

CONSOLIDATED PUBLIC SECTOR

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State Governments

State governments' consolidated revenue for 2018 is projected at RM20.6 billion of which RM16 billion or 77.7% is from state-generated revenue while the remaining is contributed by the Federal Government grants. Petroleum royalties, investment income and land premiums account for RM9.6 billion or 60% from the state-generated revenue. Revenue of Sarawak, Sabah, Terengganu, Selangor and Johor constitute 82.5% or equivalent to RM13.2 billion of the consolidated state-generated revenue.

Tax revenue is estimated to constitute 23.8% or RM4.9 billion of the consolidated revenue contributed by direct tax collection of RM3.0 billion and indirect tax collection of RM1.8 billion. Direct tax mainly comprises of tax on natural resources such as land, mines and forestry while indirect tax consists mainly of tax on entertainment and sales tax (in Sabah and Sarawak). Part V, Additional Sources

Table 6.1. Consolidated State Governments' Financial Position 2017 – 2018

	RM million		Change (%)	
	2017	2018 ¹	2017	2018 ¹
Revenue	21,639	20,572	8.7	-4.9
Operating expenditure	9,830	11,428	-4.3	16.3
Current balance	11,809	9,144		
Gross development expenditure	9,589	12,120	7.9	26.4
Development Fund	9,476	11,795	8.5	24.5
Water Supply Fund	113	325	-24.7	187.6
Less: Loan recovery	280	321	1.9	14.6
Net development expenditure	9,309	11,799	8.1	26.7
Overall balance	2,500	-2,655		
Share of GDP (%)	0.2	-0.2		

¹ Estimate.

Source: Ministry of Finance, Malaysia.

of Revenue Assigned to States of Sabah and Sarawak, of the Tenth Schedule of Federal Constitution stipulates state sales tax as one of the state revenue sources. Currently, Sabah and Sarawak state governments only impose a sales tax on crude palm oil, crude palm kernel oil and gaming activity.

Non-tax revenue represents 61.5% or RM12.7 billion of the consolidated revenue. The main components are petroleum royalties, investment income and land premiums with a total contribution of RM9.6 billion. Meanwhile, non-revenue receipts are estimated at RM3 billion, mainly from grants and reimbursements from the Federal Government.

The total consolidated expenditure of state governments is projected to be higher by 21.3% to RM23.5 billion. OE is expected to rise by 16.3% to RM11.4 billion largely due to higher emoluments as well as supplies and services. DE is also anticipated to increase 26.4% to RM12.1 billion to finance agriculture and rural development, housing, public amenities, drainage and irrigation, water supply projects and upgrading physical infrastructure to support business and industrial activities. Hence, the state governments' consolidated financial position in 2018 is estimated to record a current surplus of RM9.1 billion. However, after taking into account higher DE, the state governments' overall balance is expected to register a deficit of RM2.7 billion or 0.2% of GDP.

General Government

According to IMF, the general government sector consists of resident institutional units that fulfil the functions of government as their primary activities. Among the principal economic functions of government units are to provide goods and services to the

**Table 6.2. Consolidated General Government Financial Position
2017 – 2019**

	RM million			Change (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Revenue	263,031	276,599	304,819	4.7	5.2	10.2
Operating expenditure	245,325	265,699	289,455	3.6	8.3	8.9
Current balance	17,706	10,900	15,365			
Development expenditure	50,683	62,794	61,132	8.0	23.9	-2.6
Overall balance	-32,977	-51,894	-45,768			
Share of GDP (%)	-2.4	-3.6	-3.0			

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

Source: Ministry of Finance, Malaysia.

community on a non-market basis, redistribute income and wealth by means of transfers and finance their activities primarily out of taxation or other compulsory transfers. In Malaysia, general government sector consists of the Federal Government, state governments, local governments and statutory bodies.

The consolidated financial position of the general government is expected to register a lower current account surplus of RM10.9 billion in 2018 due to a higher increase in OE (RM20.4 billion; 8.3%) as compared with revenue (RM13.6 billion; 5.2%). The DE of the general government is expected to rise by 24% to RM62.8 billion largely due to higher Federal Government DE. The general government sector is estimated to record a higher overall deficit of RM51.9 billion or 3.6% of GDP in 2018 after netting off all intra-transfers and net lending.

All government units except for local governments are expected to record a higher deficit for 2018 after netting off all intra-transfers and net lending. Under the legal provision, other layers of government can only borrow from or with the approval of the Federal Government. Hence, credit risk exposure of general government is contained within the Federal Government level. Thus, the deficit will be financed through accumulated reserves and Federal Government borrowings.

Non-Financial Public Corporations

Consolidated revenue of the non-financial public corporations (NFPCs) in 2018 is estimated to record a slight increase of 1.9% to RM376 billion. The growth is contributed mainly from utility and telecommunication sectors in line with higher demand for utilities and broader customer base. Similarly, consolidated current expenditure is projected to increase 9.3% to register RM317 billion in 2018 particularly due to higher number of oil refineries repair and maintenance activities as well as input cost in the utility sector in line with rise in fuel prices. With a smaller net operating surplus of RM58.9 billion, the consolidated NFPCs overall balance is expected to register a higher deficit of RM27 billion or 1.9% of GDP.

**Table 6.3. Consolidated NFPCs¹ Financial Position
2017 – 2018**

	RM million		Change (%)	
	2017	2018 ²	2017	2018 ²
Revenue	368,917	375,969	10.2	1.9
Current expenditure	290,067	317,038	6.5	9.3
Current balance	78,850	58,931		
Capital expenditure	88,865	85,956	-3.7	-3.3
Overall balance	-10,015	-27,025		
Share of GDP (%)	-0.7	-1.9		

¹ Refers to 28 major NFPCs.² Estimate.

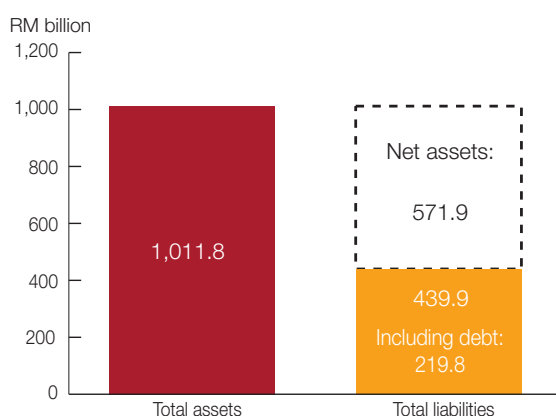
Source: Ministry of Finance, Malaysia.

Consolidated NFPCs' capital expenditure is expected to further decline to RM86 billion due to completion of several major projects primarily in the energy and utility sectors as well as lower equity investment. Among completed projects include PETRONAS LNG Train 9, Floating LNG 1, Sabah-Sarawak Gas Pipeline, Sabah Ammonia Urea plant and Manjung Coal-fired Power Plant (Manjung 5). Meanwhile, the Pengerang Integrated Complex (PIC) and Jimah coal-fired power plant have achieved

92% completion in the second quarter of 2018 which are scheduled to be operational in 2019. Nevertheless, NFPCs in the telecommunication and aviation sectors continue to increase their investments in line with growing market.

Total liabilities of the NFPCs as at end-2017 stood at RM439.9 billion. Of this, total outstanding debt is at RM219.8 billion. Nevertheless, the total liabilities are backed with a large amount of assets amounting to RM1,011.8 billion leaving a net worth of RM571.9 billion. Therefore, the NFPCs are able to finance its deficit through accumulated retained earnings and borrowings, backed by quality assets and future revenue streams.

Figure 6.1. NFPCs' Assets and Liabilities (End-2017)



Source: Ministry of Finance, Malaysia.

Consolidated Public Sector

The purpose of reporting consolidated public sector¹ (CPS) financial position is to estimate the size of the public sector, measure its impact on the economy at macro level and identify the sources of fiscal risk. The consolidation requires all intra transfers and net lending being segregated from every layer of public sector unit. While CPS estimates serve the

Table 6.4. Consolidated Public Sector Financial Position 2017 – 2019

	RM million			Change (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Revenue	224,316	231,012	230,830	0.9	3.0	-0.1
Operating expenditure	245,121	265,413	289,405	3.7	8.3	9.0
NFPCs current balance	117,181	103,040	109,526			
Public sector current balance	96,376	68,639	50,951			
Development expenditure	139,456	147,583	139,817	0.3	5.8	-5.3
General government	50,591	61,627	61,040	8.2	21.8	-1.0
NFPCs	88,865	85,955	78,777	-3.7	-3.3	-8.4
Overall balance	-43,080	-78,944	-88,866			
Share of GDP (%)	-3.2	-5.5	-5.8			

¹ Revised estimate.

² Budget estimate, excluding 2019 Budget measures.

Source: Ministry of Finance, Malaysia.

¹ Consists of the general government and non-financial public corporations (NFPCs).

said purpose, the assessment of CPS financial performance needs to be dissected between general government, a social oriented unit; and NFPCs, a profit maximising unit. Thus, higher NFPCs' deficit due to capital expenditure does not necessarily indicate a deteriorating financial performance because the expenditure is considered as formation of income generating asset. Meanwhile, capital outlays of general government which contribute to higher deficit can be associated with the financial performance² of the unit.

The financial position of the CPS is expected to record a lower current surplus of RM68.6 billion. The decrease is due to higher projection of Federal Government's operating expenditure and lower estimates of NFPCs' current surplus. In addition, despite lower capital outlays of NFPCs, the consolidated DE of the public sector is anticipated to increase to RM147.6 billion mainly due to higher expenditure of general government. Hence, the overall deficit of the CPS, taking into account all transfers and net lending is estimated at RM78.9 billion or 5.5% of GDP in 2018.

² Capital outlays in general government are formation of assets. However, the assets are intended to produce socio-economic benefits instead of generating monetary gain, as the primary function of Government is to provide goods and services to community on a non-market basis. In this case, capital outlays are mere expenditure.