

SECTION 3:

FEDERAL GOVERNMENT EXPENDITURE

- Overview
- Expenditure in 2019
- Outlook for 2020
- Federal Recoverable Loans
- Conclusion

SECTION 3: FEDERAL GOVERNMENT EXPENDITURE

Overview

The Federal Government continues to emphasise on improving the efficiency and effectiveness of its spending. This is in line with the Government's commitment to restore the health of its public finances, which will result in a stronger fiscal position and sustainable economic growth. In addition, the Government will also focus on providing a more transparent and accountable expenditure reporting.

The Government improved its spending efficiency by prioritising programmes and projects based on needs and urgency as well as driving more cost savings through review of several projects. These projects that have resumed at a revised scope and lower costs are expected to enhance value for money and reduce leakages while generating high-multiplier impact on the economy. The projects include Mass Rapid Transit 2 (MRT2), East Coast Rail Link (ECRL), Light Rail Transit 3 (LRT3) as well as other public infrastructure and amenities projects.

The Government also fulfilled its commitment to settle outstanding tax refunds estimated at RM37 billion that was partly funded by a one-off special dividend from PETRONAS. In addition, several ongoing enhancements have been made on public expenditure management and reporting policies to ensure greater transparency and accountability. This effort will be implemented continuously, anchored by good governance and best practices in managing public resources.

Expenditure in 2019

The zero-based budgeting (ZBB) approach was applied in formulating the 2019 Budget where expenditures are allocated according to well-justified needs and priorities. The implementation of ZBB is to ensure efficiency and effectiveness of budgeting in achieving

the desired outcome. Given the limitation of resources, it is important to ensure prudent spending within the Government's capacity while upholding sound fiscal management.

The Federal Government allocation for 2019 is revised upwards to RM316 billion from the budget estimates of RM314.6 billion, mainly to cater for higher operating expenditure (OE) requirement. Of total revised allocation, OE constitutes RM262.3 billion or 17.3% of GDP, while development expenditure (DE) at RM53.7 billion or 3.5% of GDP. After excluding charged expenditures and transfer payments which account for 36.1% of total expenditure, social sector continues to receive the largest allocation with 34.1% of total expenditure or 7.1% of GDP, followed by economic (14%; 2.9% of GDP), security (9.6%; 2% of GDP) and general administration (6.2%; 1.3% of GDP) sectors.

The upward revision of RM2.4 billion for OE during the year is mainly to cater to the additional requirement for existing programmes based on critical spending needs by ministries. The additional expenditure allocation is partly for fuel subsidies, following the Government's decision to reschedule the implementation of a targeted fuel subsidies programme; and fix the pump price ceiling at RM2.08 per litre and RM2.18 per litre for RON95 and diesel, respectively since March 2019. Furthermore, additional allocation is also provided for education and health subsectors, which include food assistance for boarding schools, school cleaning services and medical supplies.

In comparison to 2018, OE is estimated to increase 13.6% to RM262.3 billion or 17.3% of GDP, mainly due to one-off allocation for outstanding tax refunds. However, excluding allocation for outstanding tax refunds, OE is estimated to decline 2.5% to RM225.3 billion or 14.8% of GDP. The bulk of OE is for emoluments, retirement charges, debt service charges as well as supplies and services, constituting 65.5%

of OE. Emoluments is projected to increase 2.6% to RM82 billion primarily due to annual salary increments. As for retirement charges, it is estimated higher at RM26.6 billion due to annual increments and to accommodate about 853,000 pensioners and beneficiaries. In addition, debt service charges is estimated to increase further to RM33 billion. Meanwhile, supplies and services is projected at RM30.2 billion with 73% for payment of repairs and maintenance, professional services and other material supplies.

The outlays for subsidies and social assistance is estimated to decline to RM23.6 billion as compared to 2018 mainly due to lower fuel subsidies and Cost of Living Aid (BSH). The reduction in fuel subsidies is due to the assumption of lower crude oil price averaging USD63 per barrel. Meanwhile, BSH is estimated at RM5 billion (2018: RM6.4 billion), given the restructuring of recipients' criteria and assistance amount effective 2019. About 3.6 million households continue to receive the restructured BSH of which households with special needs children receive higher assistance and better benefits as compared to the previous BSH programme.

As the Eleventh Malaysia Plan (11MP) enters its fourth year of implementation, Government outlays will continue to focus on public infrastructure investment and develop economic enablers to stimulate growth. DE will be spent on programmes and projects with high-multiplier impact on the economy while ensuring the well-being of the people. In 2019, DE is estimated at RM53.7 billion, lower than the original estimates of RM54.7 billion, due to revision and rescheduling of several development projects. Of the total, RM51.7 billion is direct allocation, while RM2 billion is in the form of loans to state governments and Government-linked entities.

The economic sector remains the largest recipient of DE, with a share of 53.7%, followed by social (28%), security (12.5%) and general administration (5.8%) sectors. During the year, expenditure for the economic sector is estimated at RM28.8 billion, focusing on developing public transportation infrastructure; enhancing trade and industrial activities; improving public utilities; as well as intensifying agriculture and rural development. As such, transport subsector is allocated RM11.2 billion mainly

**Table 3.1. Federal Government Operating Expenditure by Component
2018 – 2020**

	RM million			Change (%)			Share (%)		
	2018	2019 ¹	2020 ³	2018	2019 ¹	2020 ³	2018	2019 ¹	2020 ³
Emoluments	79,989	82,045	82,611	3.8	2.6	0.7	34.6	31.3	34.3
Retirement charges	25,177	26,557	27,055	10.4	5.5	1.9	10.9	10.1	11.2
Debt service charges	30,547	33,000	34,945	9.6	8.0	5.9	13.2	12.6	14.5
Grants and transfers to state governments	7,605	7,571	7,749	7.0	-0.4	2.4	3.3	2.9	3.2
Supplies and services	35,283	30,178	38,546	1.6	-14.5	27.7	15.3	11.5	16.0
Subsidies and social assistance	27,516	23,569	24,186	23.1	-14.3	2.6	11.9	9.0	10.0
Asset acquisition	447	673	650	-13.4	50.6	-3.4	0.2	0.3	0.3
Refunds and write-offs	883	921	987	9.2	4.3	7.2	0.4	0.4	0.4
Grants to statutory bodies	13,763	13,218	15,272	-2.0	-4.0	15.5	6.0	5.0	6.3
Others	9,750	44,528 ²	9,019	-5.0	356.7	-79.7	4.2	16.9	3.8
Total	230,960	262,260	241,020	6.1	13.6	-8.1	100.0	100.0	100.0
Share of GDP (%)	16.0	17.3	14.9						

¹ Revised estimate.

² Including a one-off allocation for outstanding tax refunds.

³ Budget estimate, excluding 2020 Budget measures.

Source: Ministry of Finance, Malaysia.

for financing MRT2 and Pan Borneo Highway projects, as well as upgrading of system and infrastructure for electrified Klang Valley Double Track (KVDT) phase 1 connecting Rawang and Salak Selatan. Energy and public utilities, as well as trade and industry subsectors are allocated RM2.6 billion and RM3 billion, respectively. Among the key projects include River of Life, upgrading sewage treatment plants, entrepreneur financing programmes as well as a soft loan scheme for automation and modernisation. These three subsectors constitute 31.3% of the total DE.

The outlays for the social sector are expected to increase 16.6% to RM15 billion from 2018, of which the main subsectors include education and training, health as well as housing. Education and training subsector receive the largest allocation of RM8 billion. Among programmes and projects under the subsector are ongoing construction of new schools; upgrading and refurbishment of schools, teachers' quarters and tertiary institutions; expansion of teaching hospitals; implementation of MARA training and education programmes; and enhancement of technical and vocational education training (TVET) programmes.

The allocation to the health subsector is expected to increase by 27.4% to RM2.3 billion. Projects and programmes under this subsector include the construction and upgrading of hospitals and clinics including Padang Besar Health Clinic, Pulau Pinang Hospital and Kota Marudu Hospital. Meanwhile, the housing subsector is allocated RM1.8 billion, mainly for building affordable homes for targeted groups.

The security sector is provided with an allocation of RM6.7 billion in 2019. The spending is channelled for programmes and projects aimed at strengthening and enhancing the country's defence and internal security. Major outlays are for procurement and upgrading military and security equipment; building and refurbish offices, quarters and camps; and maintenance of integrated communication system. Meanwhile, disbursement for the general administration sector which includes expenses for ICT projects, asset management, as well as

upgrading of Government offices and equipment is expected to increase 45.3% to RM3.2 billion (2018: RM2.2 billion).

Outlook for 2020

In the 2020 Budget, a total of RM297 billion or 18.4% of GDP will be allocated, of which RM241 billion or 81.1% for OE while the balance RM56 billion for DE. Of the total, 37.9% is allocated for programmes and projects under social sector, followed by economic (16.2%), security (11.3%) and general administration (7.5%) sectors, while the balance of 27.1% is allocated for charged expenditure and transfer payments. The top three recipients are Ministry of Education (MOE), Ministry of Finance and Ministry of Health (MOH) with an estimated allocation of RM64.1 billion, RM37.8 billion and RM30.6 billion, respectively, constituting 44.6% of total expenditure.

The Government will channel its allocation to strengthen capital formation towards ensuring long-term growth sustainability. In this regard, an additional injection of 0.2% of GDP is allocated through DE to accelerate the implementation of projects with strategic and high-multiplier impact such as construction of railways and roads, upgrading of schools, clinics and water treatment plant as well as improving the suburban broadband infrastructure. These pre-emptive measures are expected to sustain the growth momentum and expand the economic capacity, thus improving the well-being of the people.

OE allocation is estimated at RM241 billion or 14.9% of GDP in 2020, an increase of 7% from RM225.3 billion allocation in 2019 after excluding one-off tax refund allocation of RM37 billion. The bulk of OE is channelled to emoluments which constitutes 5.1% of GDP, followed by supplies and services (2.4%), debt service charges (2.2%), retirement charges (1.7%) as well as subsidies and social assistance (1.5%).

Emoluments remain the largest component of OE and estimated to grow to RM82.6 billion, predominantly due to annual salary increment.

The allocation is for payment of wages and salaries, allowances and other remuneration for Federal Government's civil servants of about 1.4 million, of which 67.5% is for the MOE and MOH, mainly for teachers, doctors and nurses. Retirement charges, which is for pension payments; gratuity payments; and cash award in lieu of accumulated leave, is estimated to increase 1.9% to RM27.1 billion. About 75% of retirement charges comprise monthly pension payments for about 874,000 pensioners and beneficiaries. In view of escalating pension commitment and concerns over the sustainability of the present scheme, the Government is exploring options for a more robust scheme to efficiently manage future pension obligations.

Supplies and services, the second largest component of OE, is expected to increase 27.7% to RM38.5 billion. The increase is mainly due to higher outlays for repairs and maintenance as well as allocation for professional services. For this component, the MOH will be receiving the highest allocation (28.2%), mostly for procurement of medical supplies as well as repairs and maintenance of medical facilities. This is followed by the MOE (16%), of which substantial allocation is for repairs and maintenance of school facilities, security services and cleaning services.

Subsidies and social assistance is estimated to register RM24.2 billion mainly for BSH and welfare assistance; fuel and agriculture-related subsidies; toll compensation; as well as education-related assistance including scholarship. Fuel subsidies are estimated to be lower with the expectation to reinstate the managed-float system for RON95 and diesel in line with the implementation of targeted fuel subsidies programme. Meanwhile, the Government will provide BSH assistance amounting to RM5 billion in 2020, aimed at easing the financial burden of the recipients.

Grants to statutory bodies, which is predominately for operational expenses such as emoluments and outlays of supply and services are estimated to increase by 15.5% to RM15.3 billion. The increase is mainly due to higher requirement by public universities and teaching hospitals amounting to RM8.6 billion

or 56.5% of total grants to statutory bodies (2019: RM8.2 billion, 62.1%). Meanwhile, grants and transfers to state governments is estimated at RM7.7 billion, of which RM5.7 billion is constitutional transfers as stipulated under the Federal Constitution.

Debt service charges on Federal Government debt is expected to register RM34.9 billion. Of the total, 97.7% is allocated for payment of coupons on domestic debts, particularly Malaysian Government Securities and Malaysian Government Investment Issues, while the balance is for offshore loans. The debt service charges ratio to OE is estimated at 14.5%.

In 2020, DE allocation will be channelled towards promoting economic development, bridging urban-rural infrastructure gap and enhancing the living standards of the people. A sum of RM56 billion will be allocated, of which RM53.5 billion is in the form of direct allocation while the balance of RM2.5 billion is for loans to state governments and Government-linked entities. The higher allocation is mainly for accelerating implementation of programmes and projects in supporting the growth momentum and strengthening the long-term capacity of economy. In addition, allocation are also provided for rationalisation plans of FELDA and Lembaga Tabung Haji as well as higher debt servicing commitment of SRC International Sdn. Bhd. Of the 2020 allocation, RM53.2 billion is allocated for 4,744 ongoing projects, while RM2.8 billion is for 722 new projects. The economic sector remains the largest recipient at 55.4% of DE, followed by social (26.9%), security (11.7%) and general administration (6%) sectors.

The economic sector will receive RM31 billion (2019: RM28.8 billion) in line with the efforts to enhance the productivity and competitiveness of the economy. Allocation in this sector is primarily for transport, energy and public utilities as well as trade and industry subsectors. The transport subsector remains the largest beneficiary constituting 21.8% of total DE or RM12.2 billion. Projects under the subsector include public transportation and highways such as MRT2, KVDT and Pan Borneo Highway; expansion of airports in Sandakan and Kota Bharu; as well as maintenance and upgrading of roads, bridges, ports and railways.

A sum of RM4.3 billion or 7.7% of the total DE will be allocated for the energy and public utilities subsector. This is in tandem with the Government's effort to provide better access to essential services, utilities and amenities, including enhancing the efficiency and productivity of water supply and sewerage services; improving the accessibility and reliability of electricity supply; and upgrading flood mitigation infrastructure. The agriculture and rural development subsector will receive an allocation of RM3 billion or 5.3% of total DE, primarily for paddy irrigation system, oil palm and rubber replanting activities as well as agricultural entrepreneurs' fund.

The trade and industry subsector is allocated with RM2.4 billion, accounting for 4.4% of total DE. Under this subsector, programmes and projects are focused on promoting trade and investments activities which include entrepreneurs' development programmes, corridors development and industrial readiness in adopting IR 4.0 technology. In addition, the environment subsector will be provided

RM1.7 billion mainly for river restoration and conservation projects to reduce the risk of flooding as well as construction and upgrading of sewage treatment plants.

Expenditure under the social sector is estimated at RM15.1 billion or 26.9% of total DE. Of this, RM7.9 billion is set aside for the education and training subsector which includes the rebuilding of dilapidated schools nationwide as well as refurbishment and improving school infrastructure. In addition, allocation will also be provided for upgrading of facilities in tertiary and training institutions; providing education, training and research fund; and construction of teaching hospitals.

About RM2.9 billion or 5.2% of total DE will be allocated for health subsector in 2020. The allocation is mainly for building, upgrading and maintaining hospitals and clinics as well as procurement of medical equipment. This is in line with the Government's priority to provide better quality healthcare and accessibility to health services. Major ongoing projects under the subsector include the construction of

**Table 3.2. Federal Government Development Expenditure by Sector
2018 – 2020**

	RM million			Change (%)			Share (%)		
	2018	2019 ¹	2020 ²	2018	2019 ¹	2020 ²	2018	2019 ¹	2020 ²
Economic	36,103	28,820	31,019	49.3	-20.2	7.6	64.4	53.7	55.4
<i>of which:</i>									
Transport	17,004	11,209	12,195	63.0	-34.1	8.8	30.3	20.9	21.8
Trade and industry	2,512	3,022	2,446	-33.9	20.3	-19.1	4.5	5.6	4.4
Energy and public utilities	2,254	2,584	4,338	-8.9	14.6	67.9	4.0	4.8	7.7
Agriculture and rural development	2,133	2,310	2,973	-3.9	8.3	28.7	3.8	4.3	5.3
Environment	1,665	1,945	1,734	-19.2	16.8	-10.8	3.0	3.6	3.1
Social	12,873	15,010	15,068	3.6	16.6	0.4	22.9	28.0	26.9
<i>of which:</i>									
Education and training	6,505	8,020	7,864	3.2	23.3	-1.9	11.6	14.9	14.0
Health	1,773	2,258	2,898	20.6	27.4	28.3	3.2	4.2	5.2
Housing	1,285	1,830	1,491	63.7	42.4	-18.5	2.3	3.4	2.7
Security	4,929	6,689	6,557	-7.6	35.7	-2.0	8.8	12.5	11.7
General administration	2,190	3,181	3,356	-25.5	45.3	5.5	3.9	5.8	6.0
Total	56,095	53,700	56,000	25.0	-4.3	4.3	100.0	100.0	100.0
Share of GDP (%)	3.9	3.5	3.5						

¹ Revised estimate.

² Budget estimate, excluding 2020 Budget measures.

Source: Ministry of Finance, Malaysia.

Kemaman Hospital and pathology laboratories at Sultanah Aminah Hospital, expansion of Segamat Hospital and upgrading of Kajang Hospital.

The Government is committed to enhancing home ownership among low- and middle-income earners by continuing to provide adequate and quality affordable houses through various schemes. Housing subsector will be allocated RM1.5 billion or 2.7% of total DE. This allocation will be primarily utilised for construction of People's Housing Project (PPR) and civil servants quarters; as well as rehabilitation of abandoned private housing projects.

The security sector, comprising defence and internal security, remains a priority with an estimated outlays of RM6.6 billion or 11.7% of total DE. A sum of RM3.2 billion will be distributed for the defence subsector while a total of RM3.4 billion for the internal security subsector. The expenditure is mainly for developing integrated network services, strengthening the civil defence, upgrading military and security equipment as well as improving surveillance and enforcement. The allocation is also for building and refurbishment of facilities such as police stations, military camps and quarters for security personnel.

The general administration sector is allocated RM3.4 billion in 2020. Priority spending in the sector is for the development of financial accounting and information systems services; expansion of public sector data centre; as well as renovation and upgrading of government buildings. Major ongoing projects under this subsector include Malaysia Government Integrated Telecommunication Network, Malaysia Government Unified Communications and maintenance of government quarters.

Federal Recoverable Loans

As of 31 December 2018, the total outstanding Federal Recoverable Loans¹ disbursed through the Development Fund was RM43.2 billion or 3% of GDP. Of the total, RM22.4 billion are loans to companies. Loans to state governments accounted

for RM15.3 billion mainly for water supply projects. In addition, loans to statutory bodies accounted for RM5.1 billion, followed by local governments RM0.2 billion, other organisations RM0.2 billion and cooperatives RM6.9 million.

In 2019, loan disbursements via DE is estimated at RM2 billion. The recipients include companies (73.8%), state governments (23%), statutory bodies (1.9%) and other organisations (1.3%). The disbursement to companies is mainly for road infrastructure projects, while the drawdown to state governments is for water supply projects.

In terms of loan repayments, a total of RM900.3 million is expected to be received in 2019. The repayments from state governments is estimated at RM598.6 million or 66.5% of total loan repayments. Sarawak and Sabah are expected to be the highest contributor to the loan repayments received from state governments.

A sum of RM159.3 million or 17.7% of total loan repayments is estimated from companies. Yayasan Tekun Nasional, Projek Lintasan Kota Sdn. Bhd. and Syarikat Bekalan Air Selangor Sdn. Bhd. are expected to be the top three payers with total repayments amounting to RM60.1 million. The repayments from statutory bodies and local governments are forecast at RM128.8 million and RM6.9 million, respectively. Meanwhile, the repayments from other organisations such as clubs and associations are expected at RM6.7 million.

In 2020, the Federal Government continues to provide loans that are charged under DE to state governments, statutory bodies, companies and other organisations. The total loans disbursed from the Development Fund are expected at RM2.5 billion. The loans granted to companies are estimated at RM1.9 billion, state governments (RM505.5 million), statutory bodies (RM68.8 million) and other organisations (RM24.2 million). Loans received by companies will be utilised predominantly to fund programmes and projects related to water and electricity supply, land rehabilitation, oil palm replanting and roads constructions. Meanwhile, loans received by the state governments, local governments and statutory bodies will be used

¹ The Federal Recoverable Loans is part of the Federal Government financial assets which consist of loan facilities given to state governments, local governments, statutory bodies, companies, cooperatives and various organisations.

mainly to upgrade water supply, sewerage infrastructure as well as to finance the crop development project.

The Federal Government is estimated to receive loan repayments amounting to RM766.5 million in 2020. A total of RM448 million repayments is anticipated from the state governments, with the highest repayments from Sarawak and Sabah. Companies are expected to repay a total of RM240.3 million, while the rest of the loan repayments are anticipated from local governments (RM6.9 million), statutory bodies (RM63.9 million), and other organisations (RM7.4 million).

Conclusion

The Federal Government will continue to improve the efficiency and effectiveness of its spending while enhancing transparency and good practices in public expenditure management. Spending will be focused on projects with high-multiplier impact and people-centric, as well as based on necessity and capacity to spend, without affecting public service delivery. This is aligned with measures to enhance spending optimisations and value for money, thus ensuring sound public finances that support sustainable economic growth.

Figure 3.1. Total Expenditure by Sector

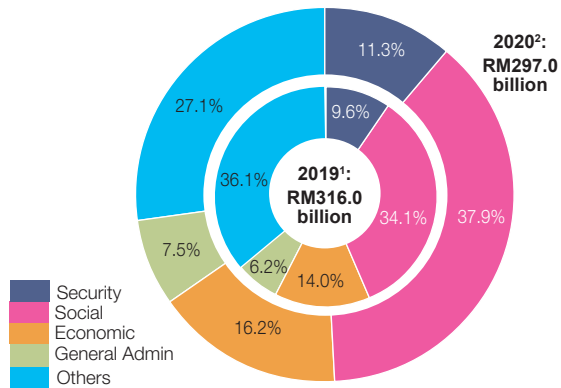


Figure 3.2. Total Expenditure by Ministry and Agency

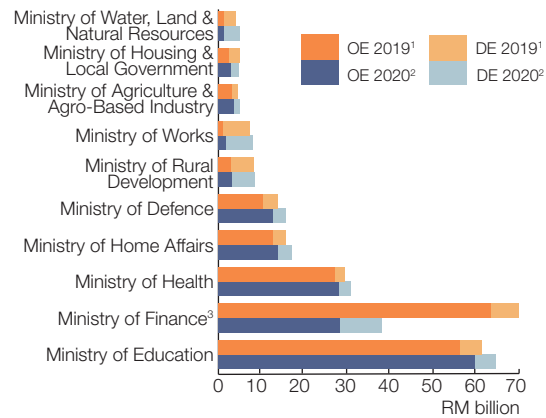


Figure 3.3. Operating Expenditure by Component (% to OE)

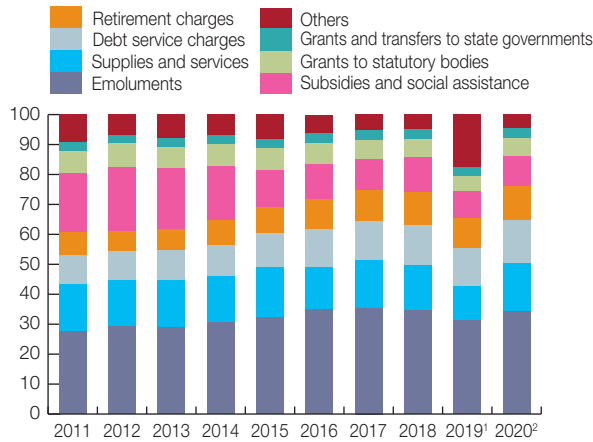


Figure 3.4. Operating Expenditure by Sector

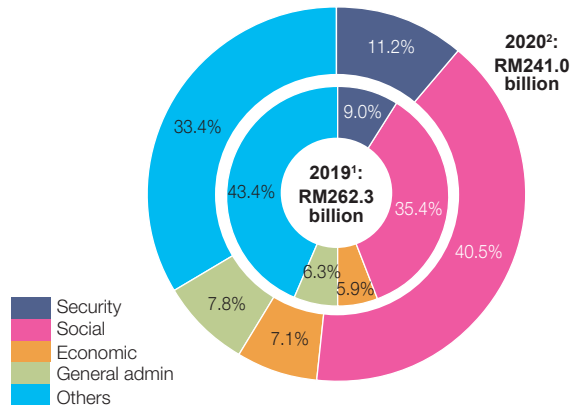


Figure 3.5. Development Expenditure by Sector

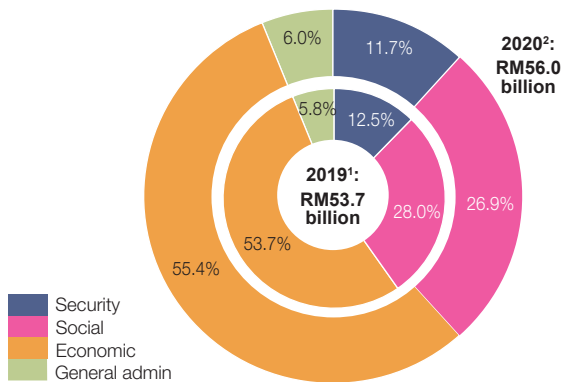
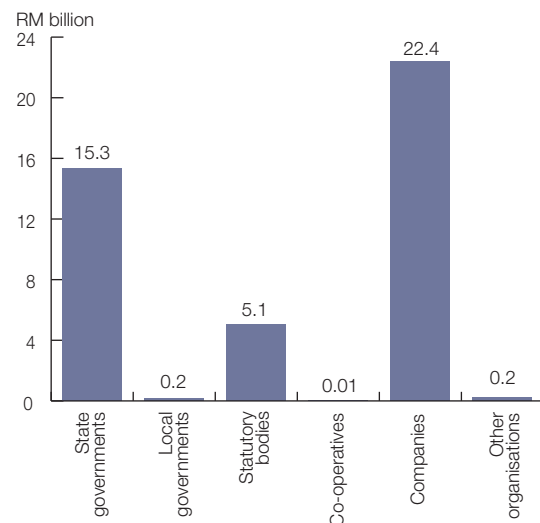


Figure 3.6. Federal Recoverable Loans under Development Fund by Debtor (End-2018)



¹ Revised estimate.

² Budget estimate, excluding 2020 Budget measures.

³ OE includes allocation for Statutory Funds.

Source: Ministry of Finance, Malaysia.