

SECTION 6:

CONSOLIDATED PUBLIC SECTOR

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State Governments

State governments¹ total consolidated revenue for 2019 is projected to increase significantly by 19.6% to RM27.9 billion. Of the total, 88.1% or RM24.6 billion is from state-generated revenue which largely consists of sales tax, petroleum royalty, investment income, land premium and land tax, while the remaining is from the Federal Government grants. The state-generated revenue is expected to surge 30.8% mainly attributable to a 5% sales tax, which has been imposed on petroleum products by Sarawak effective 1 January 2019. Sarawak, Sabah, Terengganu, Selangor and Johor continue to be the major contributors to the total consolidated state-generated revenue constituting 86.1% or RM21.2 billion.

Tax revenue is estimated at RM9 billion or 32.1% of the total consolidated revenue. Of this, direct tax totalled RM3.2 billion comprising mainly taxes on natural resources such as land, forestry and mines. Meanwhile, indirect tax is expected to contribute RM5.8 billion, representing 64.2% of tax revenue. Sales tax on petroleum products in Sarawak is expected to total RM3.9 billion, thus generating substantial revenue to the state as compared to previous years. Sales tax in Sabah and Sarawak is under states' jurisdiction and is one of their sources of revenue as stipulated in the Federal Constitution.²

Non-tax revenue is anticipated to register RM12.5 billion or 44.7% of the total consolidated revenue. The main components are petroleum royalty of RM3.6 billion, investment income of RM3.4 billion and land premium of RM2.1 billion. Meanwhile, **non-revenue receipts** of RM6.5 billion comprise mainly grants from the Federal Government which include capitation

grants that are based on annual population projection; grants for operating expenditure of departments under Concurrent List of Federal Constitution; and service charges for the involvement of state employees in federal development projects.

The total consolidated expenditure of state governments is forecast to be higher by 8.9% to RM27.6 billion. Operating expenditure (OE) is expected to increase by 13.4% to RM14.3 billion (2018: 2.8%; RM12.6 billion) mostly due to higher grants and fixed payments; as well as allocation for supplies and services. Meanwhile, development expenditure (DE) is estimated to increase 4.5% to RM13.2 billion (2018: 34%; RM12.7 billion). Among the main projects carried out in 2019 are the construction of water treatment plants in Banting, Selangor and Kemaman, Terengganu; development of water supply projects in Selangor and Johor;

Table 6.1. Consolidated State Governments' Financial Position 2018 – 2019

	RM million		Change (%)	
	2018	2019 ¹	2018	2019 ¹
Revenue	23,338	27,918	7.2	19.6
Operating expenditure	12,646	14,336	2.8	13.4
Current balance	10,692	13,582		
Gross development expenditure	12,668	13,237	34.0	4.5
Development Fund	12,640	13,044	35.3	3.2
Water Supply Fund	28	193	-75.2	589.3
Less: Loan recovery	291	329	3.9	13.1
Net development expenditure	12,377	12,908	34.9	4.3
Overall balance	-1.685	674		
Share of GDP (%)	-0.1	0.04		

¹ Estimate.

Source: Ministry of Finance, Malaysia.

¹ Excluding Federal Territories.

² Part V of the Tenth Schedule: Additional Sources of Revenue Assigned to States of Sabah and Sarawak.

and flood mitigation projects in Seberang Perai, Pulau Pinang. Other projects include upgrading of administrative buildings in Kangar, Perlis and Kuala Nerus, Terengganu; construction of roads in Shah Alam and Sepang, Selangor; and the development of Bandar Baru Kijal Phase 2 in Kemaman, Terengganu. Overall, the state governments' consolidated financial position in 2019 is anticipated to record a current surplus of RM13.6 billion, representing 48.6% of total consolidated revenue. The state governments' overall balance after taking into account DE is estimated to register a surplus of RM674 million or 0.04% of GDP.

General Government

According to the Government Finance Statistics Manual (GFSM) 2014 by IMF, general government refers to institutional units that perform the principal economic functions of government. The general government functions, among others, include the provision of goods and services to the community primarily on a non-market basis; income and wealth redistribution; as well as financing activities primarily through taxation or transfers. The general government sector in Malaysia encompasses of the Federal Government, state governments, local governments and Federal statutory bodies.³ The purpose of reporting the general government's financial position is

to analyse its performance and evaluate the overall impact of government operations on the economy.

The consolidated general government revenue for 2019 is estimated to increase by 11.3% to RM312.7 billion, while consolidated OE is estimated to increase by 13.5% to RM301.5 billion. The increments for both revenue and OE are largely attributed to Federal Government, leading to the lower current surplus of RM11.2 billion compared to 2018. In addition, the consolidated DE is projected to decline 6.5% to RM59.1 billion mainly due to lower Federal Government DE. As a result, the general government's overall deficit is expected to record RM48 billion or 3.2% of GDP in 2019 after netting off all intra-transfers and net lending.

Article 111 and 112 of the Federal Constitution stipulate that all state governments, except Sabah and Sarawak shall borrow only from or with the approval of the Federal Government. In addition, local governments⁴ may borrow with the consent of respective state governments while Federal statutory bodies are also allowed to acquire borrowings with the Federal Government's approval. The overall deficit of the general government (excluding Federal Government) is financed mainly by the Federal Government borrowings and accumulated reserves, thus containing the credit risk exposure of general government within the Federal Government.

**Table 6.2. Consolidated General Government Financial Position
2018 – 2020**

	RM million			Change (%)		
	2018	2019 ¹	2020 ²	2018	2019 ¹	2020 ²
Revenue	281,037	312,663	287,724	4.9	11.3	-8.0
Operating expenditure	265,647	301,512	277,636	5.5	13.5	-7.9
Current balance	15,390	11,151	10,088			
Development expenditure	63,258	59,118	60,351	28.4	-6.5	2.1
Overall balance	-47,868	-47,967	-50,263			
% of GDP	-3.3	-3.2	-3.1			

¹ Revised estimate.

² Budget estimate, excluding 2020 Budget measures.

Source: Ministry of Finance, Malaysia.

³ Federal statutory bodies are governed by Federal ministries and subjected to respective acts to carry out specific Government functions in various sectors including education, health and agriculture. Revenues comprise mainly grants from the Federal Government.

⁴ Section 41 and 42 of Local Government Act 1976.

Non-Financial Public Corporations

The consolidated financial position of non-financial public corporations (NFPCs) is expected to register a lower current surplus of RM31.1 billion in 2019 as compared to RM60.7 billion in 2018. The lower surplus is due to higher outflows, particularly the one-off special dividend from PETRONAS to the Federal Government. Thus, the overall deficit for the year is estimated at RM47.8 billion.

Total consolidated revenue of the NFPCs is expected to decrease by 0.6% to RM385.8 billion. This is due to lower global crude oil prices at an average of USD63 per barrel. However, other sectors, such as energy and construction, are expected to record slightly better revenue in line with the completion of several development projects this year.

Total NFPCs' expenditure for 2019 is estimated at RM433.6 billion. Current expenditure is expected to increase by 8.3% to RM354.6 billion following the completion of NFPCs' major projects. The projects include Pengerang Integrated Complex (PIC) in Johor and Jimah coal-fired power plant in Negeri Sembilan. The increase in current expenditure is due to higher input and maintenance cost, especially in energy and construction sectors in line with growing demand in utilities and holding cost for unsold properties. Meanwhile, capital expenditure is estimated to remain at RM79 billion as most of the projects are in the final stage of implementation while new projects are still at the beginning stage. Among ongoing projects include floating liquefied natural gas facility in Sabah; power plant in Johor; large-scale solar project in Kedah; and Mass Rapid Transit 2 (MRT2) as well as Light Rail Transit 3 (LRT3) in Klang Valley.

NFPCs continue to invest in domestic and overseas projects in order to upgrade and modernise its infrastructure as well as to drive a more sustainable business growth. The investment includes the construction of gas development project in Sabah and Sarawak as well as O&G field development project in Azerbaijan and Iraq. Furthermore, NFPCs capital expenditure is generally disbursed to expand production capacity as well as to improve the

productivity to meet increasing demand. Major projects include gas turbine power plant in Johor and large-scale solar project in Kedah.

Table 6.3. Consolidated NFPCs' Financial Position 2018 – 2019

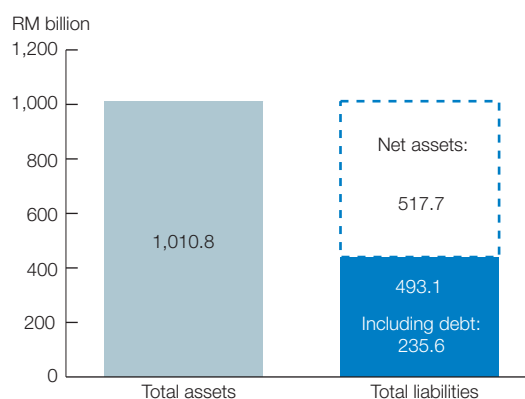
	RM million		Change (%)	
	2018	2019 ²	2018	2019 ²
Revenue	388,130	385,754	17.9	-0.6
Current expenditure	327,410	354,612	24.6	8.3
Current balance	60,720	31,142	-8.5	-48.7
Capital expenditure	78,854	78,980	-4.5	0.2
Overall balance	-18,134	-47,838	12.0	163.8
% of GDP	-1.3	-3.2		

¹ Refers to 28 major NFPCs.

² Estimate.

Source: Ministry of Finance, Malaysia.

Figure 6.1. NFPCs' Assets and Liabilities (End-2018)



Source: Ministry of Finance, Malaysia.

Consolidated Public Sector

Consolidated public sector (CPS) in Malaysia consists of general government units and NFPCs. The purpose of reporting CPS financial position is to estimate the size of the public sector, measure the impact of its activities on the economy at a macro level and identify the sources of fiscal risk. In terms of global assessment, general government and public sector data are internationally comparable. Similar to the general government, CPS requires all intra-transfers and net lending to be segregated from each public sector unit to represent the financial position as a single entity.

The assessment of financial performance needs to be differentiated between the general government, a social-oriented unit and NFPCs, a profit maximising unit. Hence, the DE of the general government, which contributes to higher deficit reflects higher capital investment for socioeconomic benefits. Meanwhile, higher NFPCs' deficit does not necessarily indicate a deteriorating financial performance as the capital expenditure is classified as an investment for the formation of an income-generating asset in the statement of financial position.

In 2019, the CPS financial position is anticipated to record a lower current surplus of RM42.2 billion. This is attributable to allocation for outstanding tax refunds. In addition, the consolidated DE of the public sector is anticipated to decline by 2.8% to RM138 billion, mainly due to lower Federal Government's DE. Hence, the overall deficit of the CPS, after netting off all intra-transactions between units is projected to be higher at RM95.8 billion or 6.3% of GDP in 2019 (2018: RM66 billion; 4.6%).

**Table 6.4. Consolidated Public Sector Financial Position
2018 – 2020**

	RM million			Change (%)		
	2018	2019 ¹	2020 ²	2018	2019 ¹	2020 ²
Revenue	230,488	237,769	244,518	0.0	3.2	2.8
Operating expenditure	265,372	301,382	277,239	5.5	13.6	-8.0
Current balance	-34,884	-63,613	-32,721			
NFPCs current balance	110,803	105,787	125,793			
Public sector current balance	75,919	42,174	93,072			
Development expenditure	141,958	138,006	136,331	7.7	-2.8	-1.2
General government	63,104	59,026	58,977	28.3	-6.5	-0.1
NFPCs	78,854	78,980	77,354	-4.5	0.2	-2.1
Overall balance	-66,039	-95,832	-43,259			
% of GDP	-4.6	-6.3	-2.7			

¹ Revised estimate.

² Budget estimate, excluding 2020 Budget measures.

Source: Ministry of Finance, Malaysia.