

SECTION 6

Consolidated Public Sector

173 CONSOLIDATED PUBLIC SECTOR

174 GENERAL GOVERNMENT

175 STATE GOVERNMENTS

**176 NON-FINANCIAL PUBLIC
CORPORATIONS**

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Consolidated Public Sector

Consolidated Public Sector

The consolidated public sector (CPS) in Malaysia consists of general government units namely the Federal Government (FG), state governments, local governments, and Federal Statutory Bodies¹; and non-financial public corporations (NFPCs)². The CPS financial position provides an overview of the financial performance that reflects the size of the public sector, quantifies the economic impact of its activity, and identifies the sources of fiscal risk. In addition, the CPS data can be used for country comparison as well as benchmarking

at the global level such as credit rating assessment. The CPS framework requires that all intra-transactions between public sector units to be netted-off accordingly.

In 2022, the CPS current balance is estimated to increase by 14.9% to RM110.4 billion (2021: RM96.1 billion). The growth is attributed to higher NFPCs' current surplus as a result of a significant boost in revenue which was driven by higher commodity prices. In addition, the consolidated development expenditure (DE) is anticipated to rise by 39.4% to RM174.4 billion (2021: RM125.2 billion), in line with higher investments, particularly by the NFPCs. Consequently, the overall deficit of the

TABLE 6.1. Consolidated Public Sector Financial Position, 2021 - 2023

	RM MILLION			CHANGE (%)		
	2021	2022 ²	2023 ³	2021	2022 ²	2023 ³
Revenue	239,263	246,304	268,809	-0.9	2.9	9.1
Operating expenditure	270,170	326,889	313,195	3.4	21.0	-4.2
Current balance	-30,907	-80,585	-44,386	56.7	160.7	-44.9
NFPCs current surplus	126,979	190,964	107,242	70.7	50.4	-43.8
Public sector current balance	96,072	110,379	62,856			
Development expenditure	125,175	174,441	194,847	4.5	39.4	11.7
General government	66,732	73,489	93,997	21.2	10.1	27.9
NFPCs	58,443	100,952	100,850	-9.6	72.7	-0.1
COVID-19 Fund ¹	37,750	28,800	5,000	-0.6	-23.7	-82.6
Overall balance	-66,853	-92,862	-136,991			
% of GDP	-4.3	-5.4	-7.5			

¹ A specific trust fund established under the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan

² Revised estimate

³ Budget estimate, excluding Budget 2023 measures

Source: Ministry of Finance, Malaysia

¹ Federal Statutory Bodies are governed by Federal ministries and subjected to their respective acts to carry out specific Government functions in various sectors, including education, rural development and agriculture. Revenues comprise mainly grants from the Federal Government.

² Refers to 32 major NFPCs.

CPS is estimated to increase to RM92.9 billion, constituting 5.4% of GDP in 2022 (2021: -RM66.9 billion; -4.3%), after taking into account the COVID-19 Fund expenditure and netting off intra-transfers, net lending and dividends between units.

General Government

The general government sector undertakes principal economic functions of the Government including provision of public goods and services, income and wealth redistribution, and financing activities through taxation or transfers. Hence, it is important to assess the financial position of the general government to ensure the government's sustainability and estimate the economic impact of overall government operations.

The general government revenue is projected to grow by 17.9% to RM339.1 billion in 2022 significantly due to higher FG revenue collection, supported by higher commodity prices and improved economic activities including financial services. Similarly, the general government

operating expenditure (OE) is estimated to increase by 20.9% to RM327.3 billion, mainly attributed to the higher FG's OE. The general government is expected to record a current surplus of RM11.8 billion (2021: RM16.9 billion).

The general government DE is projected to rise by 11.6% to RM76.3 billion, mainly due to higher state governments' DE. As such, total expenditure is expected to increase by 14.8% to RM432.3 billion (2021: RM376.7 billion) after taking into account the additional spending of FG from the COVID-19 Fund. These numbers are after netting off intra-transfers and net lending. Consequently, the overall deficit of the general government is expected to rise to RM93.3 billion or 5.4% of GDP in 2022 (2021: -RM89.2 billion; -5.8%).

The overall deficit of the general government is mainly financed by FG borrowings and accumulated reserves. Accordingly, Articles 111 and 112 of the Federal Constitution stipulate that all state governments, except Sabah and Sarawak, may borrow only from or with the approval of the FG. In contrast, local governments³ may borrow with the consent of

TABLE 6.2. Consolidated General Government Financial Position, 2021 – 2023

	RM MILLION			CHANGE (%)		
	2021	2022 ²	2023 ³	2021	2022 ²	2023 ³
Revenue	287,502	339,064	322,740	0.6	17.9	-4.8
Operating expenditure	270,626	327,259	313,655	3.4	20.9	-4.2
Current balance	16,876	11,805	9,085			
Development expenditure	68,328	76,281	96,880	23.2	11.6	27.0
COVID-19 Fund ¹	37,750	28,800	5,000	-0.6	-23.7	-82.6
Overall balance	-89,202	-93,276	-92,795			
% of GDP	-5.8	-5.4	-5.1			

¹ A specific trust fund established under the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan

² Revised estimate

³ Budget estimate, excluding Budget 2023 measures

Source: Ministry of Finance, Malaysia

³ Section 41 and 42 of the Local Government Act 1976.

the respective state governments while Federal Statutory Bodies⁴ are also allowed to obtain financing subject to FG's approval. Thus, the general government's exposure to credit risk is contained at the FG level.

State Governments

The consolidated revenue collection of state governments in 2022 is expected to increase by 9% to RM31.2 billion (2021: RM28.7 billion; -3.5%), of which 78.1% is from state-generated revenue, while the balance is transfers and grants from the FG. The state-generated revenue is estimated at RM24.4 billion with 62.7% or RM15.3 billion is for sales tax, petroleum royalties, land premiums and investment income. Largest shares of the consolidated state-generated revenue are from the states of Sarawak, Sabah, Selangor, Terengganu and Johor constituting 80.7% or RM19.7 billion.

Total direct and indirect tax is estimated at RM9.7 billion or 31.2% of the consolidated revenue. A sum of RM3.7 billion is forecasted from direct tax collection primarily on natural resources such as land, mines and forestry. Indirect tax which consists mainly of sales tax, entertainment duty and port dues is expected to record RM6 billion or 61.8% of tax revenue. Sabah and Sarawak are the only states allowed to collect sales tax as stipulated in the Federal Constitution Tenth Schedule, Part V, Additional Sources of Revenue Assigned to States of Sabah and Sarawak. The expected amount of sales tax collection in Sabah and Sarawak is RM1.9 billion and RM3.9 billion, respectively.

Non-tax revenue is projected at RM13 billion or 41.6% of the consolidated revenue. The main components are petroleum royalties at RM4.5 billion, investment income at RM2.8 billion and land premiums at RM2.2 billion. Meanwhile, non-revenue receipts are expected at RM8.5 billion comprising mainly grants from FG at RM6.8 billion which include Capitation Grants allocated based on the annual population projection, grants for

TABLE 6.3. Consolidated State Governments' Financial Position, 2021 - 2022

	RM MILLION		CHANGE (%)	
	2021	2022 ¹	2021	2022 ¹
Revenue	28,667	31,245	-3.5	9.0
Operating expenditure	14,286	14,994	14.6	5.0
Current balance	14,381	16,251		
Gross development expenditure	9,343	13,109	-1.4	40.3
Development Fund	9,249	12,650	-2.3	36.8
Water Supply Fund	94	459	623.1	388.3
Less: Loan recovery	326	276	-52.1	-15.3
Net development expenditure	9,017	12,833	2.5	42.3
Overall balance	5,364	3,418		
% of GDP	0.3	0.2		

¹ Estimate
Source: Ministry of Finance, Malaysia

OE of departments under Concurrent List of Federal Constitution and service charges for the involvement of states' employees in Federal development projects.

The consolidated state governments' OE is expected to increase by 5% to RM15 billion mainly due to higher transfers and fixed charges as well as supplies and services outlays. Meanwhile, the DE is expected to surge by 40.3% to RM13.1 billion. Among the development projects undertaken include construction of feeder road and rural development projects in Sarawak; road construction and land acquisitions for several projects in Sabah; infrastructure development including road construction and upgrading in Selangor; and the implementation of water supply projects in Pahang and Kedah. Hence, the consolidated total expenditure of state governments is forecasted to increase by 18.9% to RM28.1 billion.

⁴ Section 5 of the Statutory Bodies (Power To Borrow) Act 1999.

The consolidated state governments' financial position is anticipated to record a current surplus of RM16.3 billion or 52% of total consolidated state revenue. Meanwhile, the overall balance of the state governments is estimated to register a surplus of RM3.4 billion or 0.2% of GDP.

Non-Financial Public Corporations

NFPCs continue to adapt to the new norms and have demonstrated resilience and readiness to thrive in a challenging recovery environment. Several economic subsectors such as oil and gas, logistics, healthcare, as well as information and communication technology services have benefitted from the current global uncertainties. Therefore, the NFPCs' revenue is projected to register a higher growth of 32.8% to RM517 billion (2021: RM389.4 billion; 29%) or 30.2% of GDP, mainly contributed by the oil and gas subsector resulting from global oil price surge.

The NFPCs' total expenditure for 2022 is expected to rise to RM516.6 billion (2021: RM367 billion) or 30.2% of GDP, of which current expenditure increase to RM415.7 billion and capital expenditure to RM100.9 billion, in

line with the resumption of economic activities. Despite two years of mitigating COVID-19-related challenges, NFPCs are able to maintain significant capital expenditures. These investments are also expected to improve the future revenue generation capacity of NFPCs accordingly. Hence, the consolidated financial position of the NFPCs is projected to record a substantial current surplus of RM101.4 billion in 2022 (2021: RM80.8 billion). Meanwhile, the overall surplus is expected to decrease to RM0.4 billion or 0.02% of GDP (2021: RM22.3 billion; 1.4%).

TABLE 6.4. Consolidated Non-Financial Public Corporations¹ Financial Position, 2021 – 2022

	RM MILLION		CHANGE (%)	
	2021	2022 ²	2021	2022 ²
Revenue	389,408	517,043	29.0	32.8
Current expenditure	308,616	415,677	14.0	34.7
Current balance	80,792	101,366		
Capital expenditure	58,443	100,952	-9.6	72.7
Overall balance	22,349	414		
% of GDP	1.4	0.02		

¹ Refers to 32 major NFPCs

² Estimate

Source: Ministry of Finance, Malaysia