

## SECTION 3

# Federal Government Expenditure

### **117 OVERVIEW**

---

### **117 EXPENDITURE IN 2020**

---

### **120 COVID-19 FUND**

Information Box - COVID-19 Fund

---

### **120 OUTLOOK FOR 2021**

---

### **126 FEDERAL RECOVERABLE LOANS**

---

### **127 CONCLUSION**

---



## SECTION 3

# Federal Government Expenditure

## Overview

The global COVID-19 pandemic has forced most Governments to implement countercyclical measures to cushion the impact of the crisis. In this regard, the Federal Government undertook an immediate policy response by providing a substantial fiscal injection to stimulate the economy. Expansionary fiscal policy measures through additional allocation and tax relaxation are crucial to protect people's livelihood, support businesses and mitigate the fallout of economic activities from the crisis.

The Government has proactively responded with swift mobilisation of stimulus packages and a recovery plan to address the crisis, of which the total cost is the largest in Malaysia's fiscal history. The ability to implement these measures was due to the availability of fiscal space, following concerted fiscal consolidation efforts since 2009 and sufficient liquidity in the domestic market to support additional financing requirements. The Government will focus on channelling its spending in stimulating the economy, enhancing capacity building through infrastructure development, safeguarding the welfare of the rakyat and providing a conducive business environment. In addition, the Government will continue to review non-essential programmes and reprioritise expenditure based on the current needs and urgency of the nation. Similarly, the Government will enhance its spending efficiency and effectiveness through a rigorous assessment on benefits, costs and risks of the programmes, while reducing expenditure leakages.

Although the COVID-19 crisis has hampered the Government's fiscal reform agenda, the Government remain committed to resuming its fiscal consolidation path in the medium term. All measures announced in the stimulus

packages and economic recovery plan are short-term, which will not burden the Federal Government's finances in the medium and long term. Given the magnitude of the public funds involved, it is imperative that transparency and good governance are being upheld throughout the implementation of these fiscal measures. Towards this end, the Government has established a specific COVID-19 Fund to implement and monitor all measures comprehensively.

## Expenditure in 2020

The prolonged COVID-19 crisis has necessitated the Government to implement extensive expansionary fiscal stance. The immediate and proactive response to the COVID-19 consists of a series of economic stimulus packages, amounting to RM295 billion, which include fiscal and non-fiscal measures. Of the total, RM45 billion was from a direct fiscal injection. The packages are the Economic Stimulus Package (PRE) announced in February; followed by the Prihatin Rakyat Economic Stimulus Package (PRIHATIN) in March; the Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+) in April; and National Economic Recovery Plan (PENJANA) in June. In addition, the KITA PRIHATIN package was announced in September with an allocation of RM10 billion to enhance existing measures, including the *Bantuan Prihatin Nasional* (BPN), PRIHATIN Special Grants and the Wage Subsidy Programme (WSP). These economic packages and recovery plan are one-off and temporary measures that aim to protect the livelihood of the rakyat, propel businesses and revitalise the nation's economy.

The Federal Government total expenditure allocation for 2020 is revised upwards to RM314.7 billion from the initial budget estimate of RM297 billion. The net increase

of RM17.7 billion is derived from the fiscal stimulus injection estimated at RM38 billion and savings from expenditure amounting to RM20.3 billion. These savings are generated from reviewing existing programmes and projects, as well as the shortfall in spending due to savings in expenditure and delayed progress in the implementation of projects during the movement control period. About 55% or RM11 billion of the savings is attributed to the shortfall in development expenditure (DE). The balance of RM9.3 billion is from savings in operating expenditure (OE), which include reductions in fuel subsidies, supplies and services, and grants to statutory bodies.

Excluding the economic stimulus packages and recovery plan, the total revised allocation for 2020 is estimated at RM276.7 billion. Of these, OE constitutes RM226.7 billion or 15.8% of GDP, while DE at RM50 billion or 3.5% of GDP. Except for charged expenditure and transfer payments, which account for 27.8% of total expenditure, the social sector will continue to receive the bulk of the allocation at 37.9%

or 7.3% of GDP. This is followed by economic (16.2%; 3.1% of GDP), security (10.9%; 2.1% of GDP) and general administration (7.2%; 1.4% of GDP) sectors.

#### Operating Expenditure

OE for 2020 is revised downwards by 5.9% or RM14.3 billion to RM226.7 billion from the initial allocation of RM241 billion. The downward revision is partly due to savings, particularly on fuel subsidies following lower global crude oil prices and reduction of grants to statutory bodies with high reserves. In addition, savings are also generated from lower supplies and services outlays especially repairs and maintenance as well as professional services and reclassification of several development-related items to DE.

The revised OE of RM226.7 billion in 2020 is lower by 13.9% (2019: RM263.3 billion). This is mainly due to the absence of the one-off outstanding tax refund allocation of RM37 billion. Emoluments are estimated to increase to RM82.6 billion, mainly due to the

**TABLE 3.1.** Federal Government Operating Expenditure by Component 2019–2021

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2019	2020 <sup>2</sup>	2021 <sup>3</sup>	2019	2020 <sup>2</sup>	2021 <sup>3</sup>	2019	2020 <sup>2</sup>	2021 <sup>3</sup>
Emoluments	80,534	82,611	84,532	0.7	2.6	2.3	30.6	36.4	35.7
Retirement charges	25,894	27,055	27,583	2.8	4.5	2.0	9.8	11.9	11.7
Debt service charges	32,933	34,945	39,000	7.8	6.1	11.6	12.5	15.4	16.5
Grants and transfers to state governments	7,574	7,749	7,745	-0.4	2.3	-0.1	2.9	3.4	3.3
Supplies and services	31,507	30,101	32,770	-10.7	-4.5	8.9	12.0	13.3	13.9
Subsidies and social assistance	23,901	20,145	18,853	-13.1	-15.7	-6.4	9.1	8.9	8.0
Asset acquisition	770	650	542	72.1	-15.6	-16.6	0.3	0.3	0.2
Refunds and write-offs	893	987	511	1.1	10.5	-48.2	0.3	0.4	0.2
Grants to statutory bodies	13,780	14,040	15,430	0.1	1.9	9.9	5.2	6.2	6.5
Others	45,557 <sup>1</sup>	8,437	9,574	367.3	-81.5	13.5	17.3	3.8	4.0
<b>Total</b>	<b>263,343</b>	<b>226,720</b>	<b>236,540</b>	<b>14.0</b>	<b>-13.9</b>	<b>4.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Share of GDP (%)</b>	<b>17.4</b>	<b>15.8</b>	<b>15.1</b>						

<sup>1</sup> Including a one-off allocation for outstanding tax refunds.

<sup>2</sup> Revised estimate.

<sup>3</sup> Budget estimate, excluding 2021 Budget measures.

Source: Ministry of Finance, Malaysia.

annual salary increments. Likewise, retirement charges are expected to increase to RM27.1 billion on the back of special cash assistance to pensioners and to accommodate the rising number of pensioners. Debt service charges are estimated to escalate further by 6.1% to RM34.9 billion in 2020. In contrast, supplies and services are projected to be lower at RM30.1 billion. The outlays for subsidies and social assistance are estimated to contract by 15.7% to RM20.1 billion, as opposed to RM23.9 billion in 2019. The decrease is particularly due to lower fuel subsidies outlays as a result of declining global crude oil prices. In addition, Cost of Living Aid (BSH) is estimated at RM5 billion (2019: RM4.5 billion), which would benefit about 5 million recipients.

#### *Development Expenditure*

DE in 2020 is revised downward to RM50 billion from the original estimates of RM56 billion (2019: RM54.2 billion). The downward revision is due to the deferment and slower progress of several projects during the movement control period. However, the lower DE is partially offset by the reclassification of several development-related items from OE. Of total DE, RM47.5 billion comprises direct allocation, while RM2.5 billion is in the form of loans to state governments and Government-linked entities. In comparison to 2019, expenditures are expected to be lower across all sectors, except for the general administration sector.

The economic sector continues to remain as the sector with the largest share of DE at 57.1%, followed by social (26.1%), security (11.1%) and general administration (5.7%) sectors. The outlays for the economic sector are projected to register at RM28.5 billion, primarily for upgrading public transportation and communication connectivity infrastructure, improving public utilities, enhancing agriculture and rural development as well as intensifying trade and industrial activities. The transport subsector is allocated RM10.2 billion, mainly to finance the construction of the Pan Borneo Highway, electrified double track project, Mass Rapid Transit 2 (MRT2) and Klang Valley Double Track Phase 1 (KVDT1) infrastructure and system upgrades. Energy and public utilities, as well as agriculture and rural development subsectors, are allocated RM3.6 billion and

RM3 billion, respectively. Among key projects and programmes include construction and upgrading of sewage treatment plant as well as water distribution system for rural areas, settlers' development programme, strengthening paddy farming productivity and Monsoon Season Aid.

Overall spending for the social sector is expected to contract by 9.8% to RM13.1 billion in 2020. Education and training, as well as health and housing subsectors, continue to receive the highest allocation. A sum of RM5.9 billion will be channelled to the education and training subsector, particularly for construction, upgrading and refurbishment of schools, teachers' quarters and tertiary institutions; extension of infrastructure and facilities for teaching hospitals; expanding training and education programmes; enhancing technical and vocational education and training (TVET) programmes; and providing education loans.

Nevertheless, the health subsector expenditure is estimated to record an increase of 57.8% to RM2.9 billion. The spending is mainly for construction and upgrading of hospitals and clinics, including the Tanjung Karang Hospital, Kemaman Hospital and Sabah Dental Specialist Centre. Meanwhile, the outlays for the housing subsector are expected to decrease by 30% to RM1.5 billion in contrast to 2019. Projects and programmes under this subsector include the construction of affordable homes for civil servants and People's Housing Programme (PPR).

The security sector is provided with an allocation of RM5.6 billion in 2020. The expenditure is aimed at strengthening and intensifying the country's defence and internal security. The outlays are mainly for acquisition and enhancement of military and security equipment; ongoing construction of offices, quarters and camps; and maintenance of integrated communication systems. The general administration sector's allocation is expected to increase by 3.1% to RM2.9 billion with the bulk of the outlays is meant for comprehensive network systems, asset management as well as upgrading of Government offices and equipment.

**TABLE 3.2.** Federal Government Development Expenditure by Sector, 2019 – 2021

SECTOR	RM MILLION			CHANGE (%)			SHARE (%)		
	2019	2020 <sup>1</sup>	2021 <sup>2</sup>	2019	2020 <sup>1</sup>	2021 <sup>2</sup>	2019	2020 <sup>1</sup>	2021 <sup>2</sup>
<b>Economic</b>	<b>31,300</b>	<b>28,525</b>	<b>38,887</b>	<b>-13.3</b>	<b>-8.9</b>	<b>36.3</b>	<b>57.8</b>	<b>57.1</b>	<b>56.4</b>
<i>of which:</i>									
Transport	13,750	10,195	15,036	-19.1	-25.9	47.5	25.4	20.4	21.8
Trade and industry	3,054	2,438	3,121	21.6	-20.2	28.0	5.6	4.9	4.5
Energy and public utilities	2,760	3,586	3,330	22.4	29.9	-7.1	5.1	7.2	4.8
Agriculture and rural development	2,314	3,016	2,894	8.5	30.3	-4.0	4.3	6.0	4.2
Environment	1,723	1,734	1,891	3.5	0.6	9.1	3.2	3.5	2.7
<b>Social</b>	<b>14,484</b>	<b>13,058</b>	<b>18,369</b>	<b>12.5</b>	<b>-9.8</b>	<b>40.7</b>	<b>26.7</b>	<b>26.1</b>	<b>26.7</b>
<i>of which:</i>									
Education and training	7,629	5,871	8,873	17.3	-23.1	51.1	14.1	11.7	12.9
Health	1,827	2,883	4,726	3.0	57.8	63.9	3.4	5.8	6.8
Housing	2,126	1,491	1,834	65.4	-29.9	23.0	3.9	3.0	2.7
<b>Security</b>	<b>5,614</b>	<b>5,557</b>	<b>7,780</b>	<b>13.9</b>	<b>-1.0</b>	<b>40.0</b>	<b>10.4</b>	<b>11.1</b>	<b>11.2</b>
<b>General administration</b>	<b>2,775</b>	<b>2,860</b>	<b>3,964</b>	<b>26.7</b>	<b>3.1</b>	<b>38.6</b>	<b>5.1</b>	<b>5.7</b>	<b>5.7</b>
<b>Total</b>	<b>54,173</b>	<b>50,000</b>	<b>69,000</b>	<b>-3.4</b>	<b>-7.7</b>	<b>38.0</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Share of GDP (%)</b>	<b>3.6</b>	<b>3.5</b>	<b>4.4</b>						

<sup>1</sup> Revised estimate<sup>2</sup> Budget estimate, excluding 2021 Budget measures

Source: Ministry of Finance, Malaysia

## COVID-19 Fund

The Government has established a COVID-19 Fund in 2020 to enable a structured monitoring and transparent reporting of the implementation of programmes and projects under the economic stimulus packages and recovery plan. A total of RM45 billion of fiscal injection is allocated under the Fund, which consists of RM3.2 billion for PRE, RM21.8 billion for PRIHATIN, RM10 billion for PRIHATIN SME+ and RM10 billion for PENJANA. In addition, the Government has announced another RM10 billion in September for the enhancement of existing economic stimulus programmes, namely the BPN, PRIHATIN Special Grants, and WSP. Of the total allocation, RM38 billion will be disbursed in 2020 with the bulk of allocation channelled for BPN and WSP. The balance of RM17 billion is expected to be spent in 2021 mainly on WSP,

small scale infrastructure projects, SME soft loans and food security. The COVID-19 Fund is a temporary fund which spans over three years until end of 2022. Annual financial statement of the COVID-19 Fund, which records its actual spending performance will be tabled to Parliament.

## Outlook for 2021

The year 2021 will be a transition year for economic recovery phase with revitalised growth and restored investor and consumer confidence. Thus, budget allocation will be geared towards facilitating recovery through among others, reviving business activities, developing public infrastructure as well as promoting upskilling and reskilling programmes. The allocation will also focus on building the nation's resilience against future economic shocks, including the possibility of a resurgence of COVID-19 cases. In addition,

**INFORMATION BOX:****COVID-19 Fund****Introduction**

The severity of the COVID-19 outbreak has led most countries to implement various strategies and measures to address the crisis. Like many other countries, the Malaysian Government embarked on a swift expansionary fiscal policy through the implementation of several economic stimulus packages and a short-term recovery plan. The packages, amounting to RM295 billion or about 20% of GDP, comprise fiscal and non-fiscal measures, with a direct fiscal injection of RM45 billion. In addition, the Government has announced another RM10 billion in September 2020 for enhancement of existing stimulus programmes, namely the *Bantuan Prihatin Nasional* (BPN), PRIHATIN Special Grants for SMEs and Wage Subsidy Programme. A new Act, the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 (COVID-19 Act) was also approved in September 2020 by Parliament for financing the economic stimulus packages within the legal framework.

The COVID-19 Act provides for a temporary increase in the statutory limit of the Federal Government's outstanding debt and for the establishment of a specific trust fund, known as the COVID-19 Fund, incorporated into the Second Schedule of the Financial Procedure Act 1957 [Act 61]. The Act also allows for any sums raised under the Loan (Local) Act 1959 [Act 637] and Government Funding Act 1983 [Act 275] to be transferred into the COVID-19 Fund. The establishment of the COVID-19 Fund promotes transparency and is in line with good governance practices as it requires the tabling and reporting of all measures and transactions to Parliament.

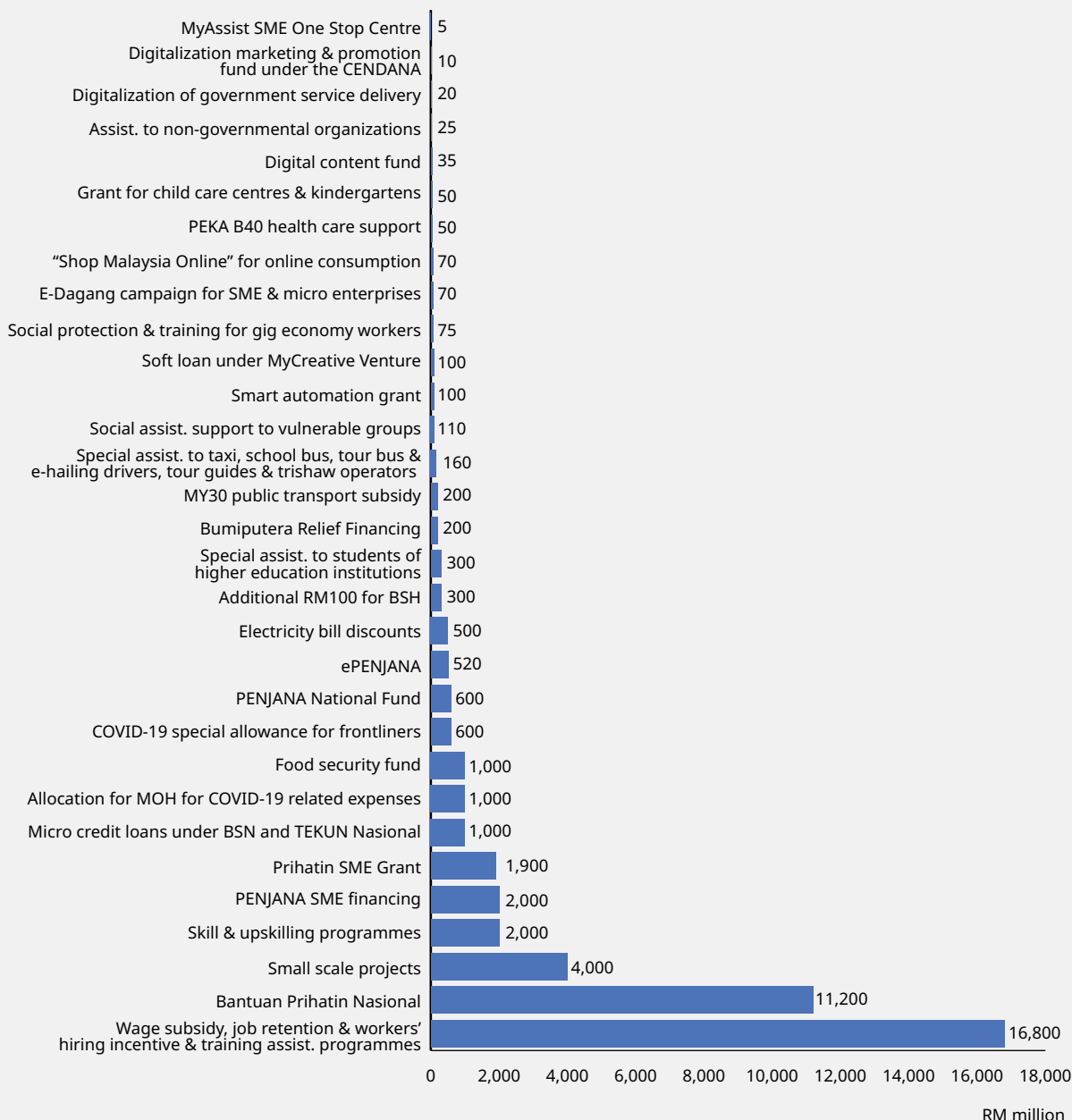
**The COVID-19 Fund**

The COVID-19 Fund was established with a validity period of three years ending 31 December 2022. Allocations for programmes and projects under the Fund are allowed to be spent within the validity period. The Fund may receive proceeds from borrowings as provided under subsection 4(1) of the COVID-19 Act. This enables programmes and projects under the economic stimulus packages and recovery plan to be fully funded by proceeds from domestic borrowings.

Upon the expiry of the Act, any amount payable from the Fund shall be paid within six months from the expiration date. The balance in the Fund will be transferred into the Development Fund. The COVID-19 Fund will then be dissolved, and the Dewan Rakyat may remove the Fund from the Second Schedule of the Financial Procedure Act 1957 by way of a resolution. Annual statement of receipts and expenditure of the Fund will also be prepared as part of the Federal Government Financial Statement. This is to ensure proper recordings and reporting of the transactions in the Fund.

**Programmes and Allocations under the COVID-19 Fund**

The Government's fiscal injection amounting to RM45 billion under the COVID-19 Fund consists of several stimulus packages comprising RM3.2 billion for Economic Stimulus Package (PRE), RM21.8 billion for Prihatin Rakyat Economic Stimulus Package (PRIHATIN), RM10 billion for Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+), and RM10 billion for *Pelan Jana Semula Ekonomi Negara* (PENJANA).

**FIGURE 1.** List of Programmes and Allocation under the Schedule to the COVID-19 Act

Source: Ministry of Finance, Malaysia

Of the total allocation, RM16.8 billion is allocated for the Wage Subsidy, Job Retention and Workers' Hiring Incentive and Training Assistance Programmes. The programmes are aimed at promoting employee retention and reduce layoffs as well as encourage the hiring of employees. A sum of RM11.2 billion is provided for BPN to ease the burden of the rakyat, especially the lower-income group. Small scale projects are allocated RM4 billion to spur economic activities. At the same time, RM1.6 billion is channelled for healthcare services and purchase of medical apparatus as well as allowances for frontliners. Other measures, including food security programme; cash assistance, subsidies and incentives; and loans for SMEs and businesses, are allocated RM11.4 billion.



As provided under subsection 5(1) of the COVID-19 Act, allocations in the COVID-19 Fund shall be disbursed and applied only for the purposes of programmes and projects specified in the Schedule. Virement of allocations between programmes and projects are allowed within the given limit of RM45 billion. In addition, suspending or limiting any allocations for any programme in the Schedule is allowable. In the event where new programmes or additional allocation are required, the Government must amend and table the revised Schedule to COVID-19 Act to Parliament for approval.

### Conclusion

The COVID-19 crisis has necessitated the establishment of the COVID-19 Fund, which allows proceeds from borrowings to be transferred into the Fund and utilised for measures under the economic stimulus packages and recovery plan. The Fund was designed for swift implementation, effective monitoring and proper reporting of the packages, which further enhances the accountability and transparency of public finance management. It also provides clear segregation between annual budget allocation versus crisis spending.

### References

- Ministry of Finance Malaysia (2020). *Economic Stimulus Package 2020*. Retrieved on 7 July 2020 from <https://www.treasury.gov.my>.
- Ministry of Finance Malaysia (2020). *PRIHATIN Rakyat Economic Stimulus Package 2020*. Retrieved on 7 July 2020 from <https://www.treasury.gov.my>.
- Prime Minister's Office of Malaysia (2020). *Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+)* speech text. Retrieved on 7 July 2020 from <https://www.pmo.gov.my>.
- Ministry of Finance Malaysia (2020). *National Economic Recovery Plan (PENJANA) booklet*. Retrieved on 13 July 2020 from <https://penjana.treasury.gov.my>.
- Malaysia (2020). *The Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19) Act 2020*.

expenditure will be prioritised towards targeted economic sectors to ensure a high multiplier impact and quality investment as well as to protect the well-being of the rakyat and to support businesses.

Concurrently, the Federal Government has to balance the needs to support the recovery phase and ensure sound public finances. In this regard, the Government is committed to upholding its fiscal reform agenda and resuming its fiscal consolidation efforts in the medium term. The efforts will be

supported through the enhancement of good practises in expenditure management, which includes minimising leakages through closer monitoring of budget execution and increasing spending efficiency.

Towards this end, a total of RM322.5 billion (20.6% of GDP) will be allocated in the 2021 Budget. Of this total, RM236.5 billion (73.3%) will be channelled to OE, RM69 billion (21.4%) to DE and RM17 billion (5.3%) is for the COVID-19 Fund. In terms of sectoral allocation excluding the COVID-19 Fund, 37.7%

is allocated for programmes and projects under the social sector, followed by the economic (18.3%), security (11%) and general administration (7.7%) sectors. The balance of the budget amounting to RM77.4 billion (25.3%) is allocated for charged expenditure and transfer payments. The top three recipients constituting 38.5% of total expenditure or RM117.5 billion are the Ministry of Education (MOE), Ministry of Finance (MOF) and Ministry of Health (MOH).

#### *Operating Expenditure*

The allocation for OE is estimated to be higher at RM236.5 billion (15.1% of GDP) in 2021. Compared to 2020, the amount is slightly higher by 4.3% from the revised budget of RM226.7 billion. The bulk of OE is channelled to emoluments which constitute 5.4% of GDP, followed by supplies and services (2.1%), debt service charges (2.5%), retirement charges (1.8%) as well as subsidies and social assistance (1.2%).

Emoluments remain the largest component constituting 35.7% of OE. The component is estimated to increase to RM84.5 billion, contributed mainly by the provisions for annual salary increments for civil servants. Retirement charges are estimated to increase by 2% to RM27.6 billion, representing 11.7% of total OE. This amount includes pension payments, gratuity payments and cash awards in lieu of accumulated leave. Around 74% of the retirement charges comprises of monthly pension payments for pensioners and beneficiaries.

A sum of RM39 billion is allocated for debt service charges in 2021. Of the amount, 97.7% is allocated for the payment of coupons on domestic debts while the balance is for offshore loans. The debt service charges ratio to OE is estimated at 16.5%.

Supplies and services, which represent 13.9% of OE, is expected to increase by 8.9% to RM32.8 billion. The increase is mainly due to higher estimated outlays for repairs and maintenance, rentals as well as an allocation for professional services. The MOH receives the highest allocation of 29.2%, mainly for

procurement of medical supplies as well as repairs and maintenance of medical facilities, followed by the MOE at 16% with substantial allocation for repairs and maintenance of school facilities.

Subsidies and social assistance, which comprises of subsidies for goods and services, incentives and social assistance, is projected to fall by 6.4% to RM18.9 billion. The decline is mainly due to consolidation of cash assistance programmes under BSH and BPN. In addition Grants to statutory bodies are allocated at RM15.4 billion. The bulk of the allocation is mainly for operational expenses, such as emoluments as well as supplies and services of public universities and teaching hospitals. Grants and transfers to state governments are estimated at RM7.7 billion, of which RM5.7 billion is constitutional transfers as stipulated under the Federal Constitution.

#### *Development Expenditure*

The year 2021 is expected to remain a challenging year for the Government as it is the first year under the Twelfth Malaysia Plan, 2021–2025 (12MP) amid ongoing COVID-19 pandemic. In tandem with economic recovery, the DE will continue to be channelled to programmes and projects with high multiplier impact to promote economic growth and support the livelihood of the rakyat. A sum of RM69 billion is allocated for 2021, an increase of 38% from 2020. A larger allocation is provided to support economic growth and provide a better quality of life and living environment through the implementation of new and ongoing programmes and projects, mainly in the areas of education, healthcare, housing, transportation and public utilities. In addition, the Government is also providing a sizeable allocation to the trade and industry subsector to enhance the nation's competitiveness and productivity, improve ease of doing business as well as support the growth and recovery of businesses, especially SMEs, during and post COVID-19 crisis. Of the total DE, RM67.3 billion is in the form of direct allocation, while RM1.7 billion is for loans to state governments and Government-linked entities. In terms of allocation by sector, the economic sector remains the largest recipient

at 56.4% of DE, followed by social (26.7%), security (11.2%) and general administration (5.7%) sectors.

The allocation for the economic sector is at RM39 billion (2020: RM28.5 billion) in line with the efforts to drive and enhance the growth of the economy. The main focus for the sector is transportation, trade and industry as well as energy and public utilities related projects. The transport subsector accounts for the largest share at 21.8% of total DE or RM15 billion. Projects under the subsector include upgrading, expansion and maintenance of highways, roads, railways, bridges, ports and airports such as the construction of Electrified Double Track Gemas - Johor Bahru, Pan Borneo Highway, KVDT1, Rapid Transit System as well as the expansion of Kuantan Port and airport in Sandakan.

The energy and public utility subsector will be allocated with a sum of RM3.3 billion (4.8% of the total DE), in line with Government's effort to provide a higher quality of living environment and improve rural access to public amenities. Projects under the subsector include providing and improving electricity and water supply, telecommunications access and sewerage services. A sum of RM3.1 billion (4.5% of total DE) will be allocated for the trade and industry subsector. Programmes and projects under the subsector focus on strengthening entrepreneurial skills for SMEs, promoting and enhancing technological adoption among businesses, accommodating the needs of industries and entrepreneurs' development programmes. Among the projects and programmes are PUNB Entrepreneur Financing Programme, corridor development as well as Soft Loan Scheme for Automation and Modernisation. In addition, the agriculture and rural development subsector will be allocated with RM2.9 billion primarily for paddy irrigation system and oil palm and rubber replanting activities, while the environment sector will be provided with RM1.9 billion, mainly for flood mitigation and river restoration projects. Similarly, allocation is provided for the implementation of the National Fiberisation Connectivity Plan under communications subsector.

Expenditure for the social sector amounting RM18.4 billion (26.7% of total DE) is the second-largest component in DE. About RM8.9 billion is allocated for the education and training subsector to provide better education facilities for the rakyat, mainly through the development and upgrading of schools and higher learning and training institutions infrastructures. A sum of RM1.8 billion (2.7% of total DE) is allocated for the housing subsector for the construction of more civil servant quarters as well as low-cost and affordable housing mainly under the PPR. In addition, one-off construction assistance for dilapidated houses is also provided under the Housing Assistance Programme.

The health subsector remains as a priority subsector with an allocation of RM4.7 billion (6.8% of total DE; 0.3% of GDP). The focus of spending under this subsector will be to expand the health sector and provide an effective national healthcare system. More new hospitals and clinics will be built, especially in small districts, to ensure an affordable, equitable and accessible healthcare system. In addition, outlays will also be provided for the upgrading and maintenance of hospitals and clinics as well as procurement of medical service vehicles and equipment. Major ongoing projects under this subsector include the construction of Serdang Hospital Cardiology Centre, Putrajaya Hospital Endocrine Complex, and Lawas Hospital as well as upgrading of Kajang Hospital and Tawau Hospital. Other ongoing project include the construction of National Centre for Food Safety to enhance the control of food safety and quality in Malaysia.

Ensuring national security and public safety remains an important priority of the Government. In this regard, the security sector comprising defence and internal security will be allocated with RM7.8 billion. Of the total, RM4.9 billion will be channelled to the defence subsector while RM2.9 billion for the internal security subsector. The allocation will be used for upgrading military and security equipment, enhancing the skills of security personnel and developing integrated network services. Additionally, the expenditure is also for the construction and refurbishment of police stations, military camps, prisons and quarters for security personnel.

The general administration sector will be allocated RM4 billion in line with the Government's initiative to improve productivity and quality of public sector delivery system. The outlays will be mainly for the enhancing of digitalisation in Government departments, as well as refurbishments and maintenance of Government buildings and facilities such as civil servant quarters, courts and training institutions. Major projects include the Malaysia Government Integrated Communication and Government Hybrid Cloud Service.

## Federal Recoverable Loans

The total outstanding Federal Recoverable Loans<sup>1</sup>, disbursed through the Development Fund, as at 31 December 2019 was RM41.9 billion or 2.9% of GDP. Companies account for the largest debt amounting to RM23.2 billion or 55.5% of the total outstanding loans and state governments loans amounted to RM13.4 billion or 32% of the total outstanding amount. Likewise, outstanding loans to statutory bodies accounted for RM4.9 billion (11.7%), local governments RM0.2 billion (0.4%), other organisations RM0.2 billion (0.4%) and cooperatives RM6.8 million (0.02%).

The loan disbursement via DE is estimated to reach RM2.5 billion in 2020. The amount was higher by 19% as compared to 2019 at RM2.1 billion. Companies remained the largest recipient accounting for 76.4% of the total disbursement, followed by state governments at 20%, statutory bodies (2.7%) and others (0.9%). Loans to companies were mainly for physical projects such as road infrastructure and water supply projects, while loans to state governments were for water supply and sewerage projects.

The Government is expected to receive RM1 billion of loan repayments in 2020. The repayment from state governments is estimated at RM704 million or 70.4% of the

total loan repayment, with Sarawak and Sabah expected to be the highest contributors. A sum of RM145.5 million (14.5% of total loan repayments) is estimated to be received from companies. The companies, namely Pengurusan Aset Air Berhad, Bank Pertanian Malaysia Berhad (Agrobank) and Yayasan Tekun Nasional, are expected to be the top three payers with total repayments amounting to RM115.5 million. The repayments from statutory bodies and local governments are projected at RM125.3 million and RM7.3 million, respectively. In addition, the repayments from other organisations, such as clubs and associations, are expected at RM17.9 million.

In 2021, the Federal Government continues to provide loans to state governments, statutory bodies, companies and other organisations via DE to improve the overall nation's economy and quality of life of the rakyat. The total loan disbursement is estimated at RM1.7 billion with the state governments being at the top of the recipient list. The loan provided to state governments is estimated at RM730.8 million, followed by companies (RM715.5 million), statutory bodies (RM108.1 million) and other organisations (RM145.7 million). Loans received by companies will be mainly utilised to fund programmes and projects related to water and electricity supply, land rehabilitation, oil palm replanting and roads constructions. Similarly, the state governments, local governments and statutory bodies will use the loans mainly to upgrade water supply and sewerage infrastructure, as well as to finance agriculture projects.

The loan repayments in 2021 are estimated at RM800 million. Of the total, RM436.4 million (54.5%) repayments is anticipated from the state governments. Loan repayment from companies are expected at RM276.9 million, statutory bodies (RM74.7 million), local governments (RM6.4 million) and other organisations (RM5.6 million).

<sup>1</sup> The Federal Recoverable Loans are part of the Federal Government Financial Assets, which consist of loans facilities given to state governments, local governments, statutory bodies, companies, cooperatives and various organisations.

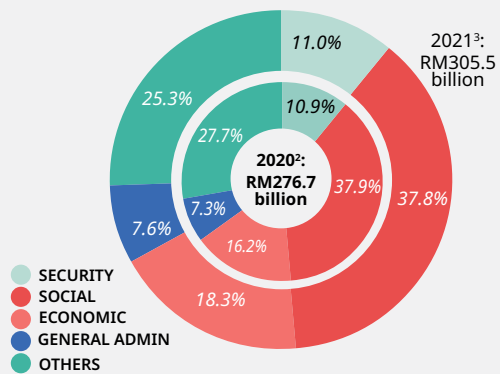
## Conclusion

---

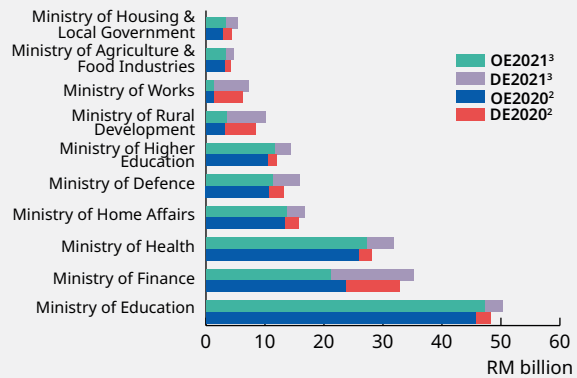
The COVID-19 pandemic has a major impact on the Government's fiscal policy, on both the Federal Government revenue and expenditure. Nevertheless, the Federal Government is committed to reduce expenditure leakages as

well as improve the efficiency and effectiveness of its spending in light of the new normal post-COVID-19. In addition, the Federal Government will also continue exploring and adopting good practices in public expenditure management as well as emphasising the importance of financial transparency reporting.

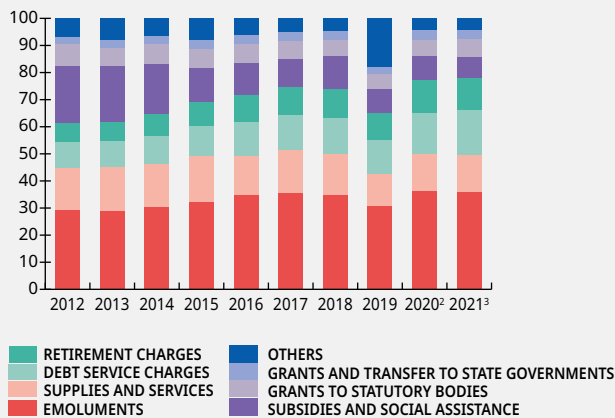
**FIGURE 3.1. Total Expenditure by Sector<sup>1</sup>**



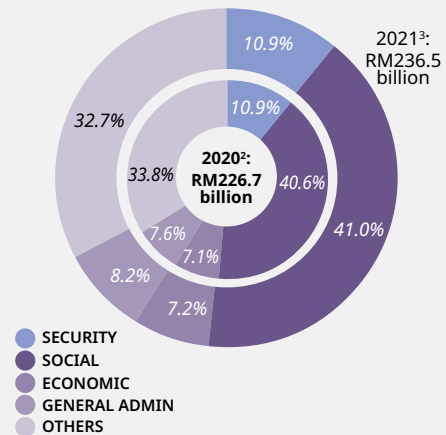
**FIGURE 3.2. Total Expenditure by Ministry and Agency<sup>1</sup>**



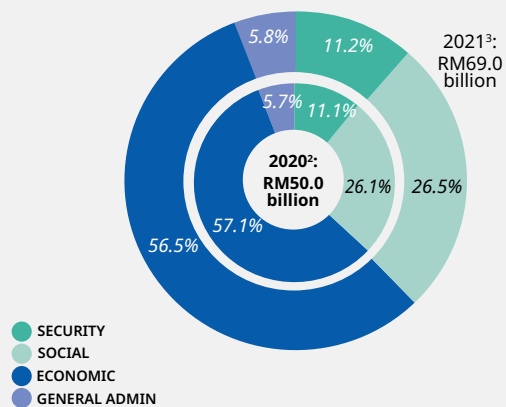
**FIGURE 3.3. Operating Expenditure by Component (% to OE)**



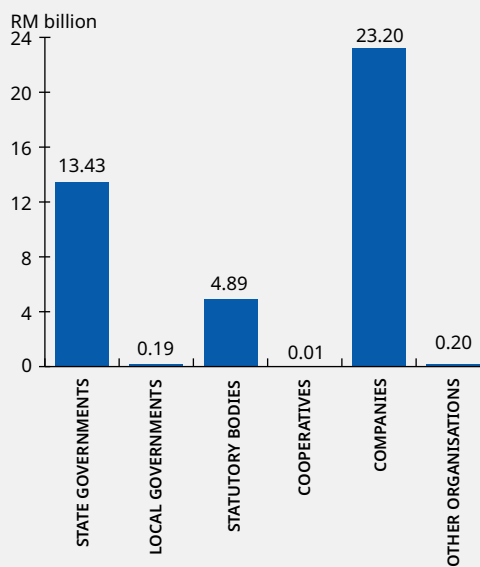
**FIGURE 3.4. Operating Expenditure by Sector**



**FIGURE 3.5. Development Expenditure by Sector**



**FIGURE 3.6. Federal Recoverable Loans under Development Fund by Debtor, End-2019**



<sup>1</sup>Excluding COVID-19 Fund  
<sup>2</sup>Revised estimate  
<sup>3</sup>Budget estimate, excluding 2021 Budget measures  
 Source: Ministry of Finance Malaysia