SECTION 6

# Consolidated Public Sector

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The consolidated public sector (CPS) in Malaysia consists of general government units and non-financial public corporations (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 and identify the sources of fiscal risks. In terms of global assessment, only general government and public sector data are internationally comparable. CPS requires all intra-transfers and net lending to be netted off from each public sector unit to represent its financial position as a single entity.

Nevertheless, the assessment of financial performance for the general government is different from that of the NFPCs. As a social-oriented unit, a higher deficit caused by the development expenditure (DE) of the general government reflects the higher capital investment that generates socio-economic benefits. While for profit-maximising NFPCs, the higher deficit indicates capital expenditure that is classified as an investment for the formation of an income-generating asset in the statement of financial position.

In 2020, the CPS financial position is anticipated to record a lower current surplus of RM65 billion (2019: RM77.5 billion). This is due to a significant decline in NFPCs' current surplus of 33.1% to RM85.3 billion, particularly from the drop in NFPCs' revenue collection in tandem with the COVID-19 pandemic. In addition, the consolidated DE of the public sector is expected to remain at RM132 billion. After netting off intra-transactions between units, the overall deficit of the CPS is projected to increase significantly to RM105 billion or 7.3% of Gross Domestic Product (GDP) in 2020 (2019: RM54.9 billion; 3.6%).

**TABLE 6.1.** *Consolidated Public Sector Financial Position, 2019 – 2021*

| | RM MILLION | | | CHANGE (%) | | |
|---|---|---|---|---|---|---|
| | 2019 | 2020[2] | 2021[3] | 2019 | 2020[2] | 2021[3] |
| Revenue | 248,052 | 244,153 | 261,033 | *2.9* | *-1.6* | *6.9* |
| Operating expenditure | 298,095 | 264,423 | 273,614 | *12.1* | *-11.3* | *3.5* |
| Current balance | -50,043 | -20,270 | -12,581 | *100.1* | *-59.5* | *-37.9* |
| NFPCs current surplus | 127,548 | 85,279 | 86,033 | *-0.5* | *-33.1* | *0.9* |
| **Public sector current balance** | **77,505** | **65,009** | **73,452** | | | |
| Development expenditure | 132,434 | 131,987 | 154,189 | *-8.3* | *-0.3* | *16.8* |
| General government | 57,089 | 56,857 | 75,015 | *-10.3* | *-0.4* | *31.9* |
| NFPCs | 75,345 | 75,130 | 79,174 | *-6.8* | *-0.3* | *5.4* |
| COVID-19 Fund[1] | - | 38,000 | 17,000 | | | *-55.3* |
| **Overall balance** | **-54,929** | **-104,978** | **-97,737** | | | |
| **% of GDP** | ***-3.6*** | ***-7.3*** | ***-6.2*** | | | |

[1] A specific trust fund established under 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 2021 Budget measures
Source: Ministry of Finance, Malaysia

## General Government

The general government refers to institutional units that perform the principal economic functions of the government.[1] The general government functions include the provision of goods and services to the community primarily on a non-commercial basis, income and wealth redistribution as well as financing activities primarily through taxation or transfers. The general government sector in Malaysia comprises the Federal Government, state governments, local governments and Federal statutory bodies.[2] The purpose of reporting the general government's financial position is to evaluate its performance and the overall impact of government operations on the economy.

The consolidated general government revenue is estimated to decrease by 10.5% to RM288.1 billion in 2020. Similarly, consolidated operating expenditure (OE) is estimated to be lower by 11.3% at RM264.7 billion. The reductions are attributed to a shortfall in both Federal Government revenue and OE, resulting in a lower current surplus of RM23.4 billion (2019: RM23.7 billion). Similarly, the consolidated DE is projected to decline marginally by 0.7% to RM56.9 billion, mainly due to lower Federal Government DE. Nonetheless, total expenditure is expected to increase to RM359.6 billion (2019: RM318.6 billion, after excluding tax refund) due to Federal Government's additional spending incurred under the newly established COVID-19 Fund for the economic stimulus packages and recovery plan. Consequently, after netting off intra-transfers and net lending, the general government's overall deficit is expected to increase to RM71.5 billion or 5% of GDP in 2020.

The overall deficit of the general government will be financed mainly by Federal Government borrowings and accumulated reserves. Under the legal provision, all state governments[3] and Federal statutory bodies shall borrow only from or with the approval of the Federal Government. Local governments[4] may only borrow with the consent of respective state governments. Thus, the credit risk exposure of the general government is contained within the Federal Government level.

**TABLE 6.2.** *Consolidated General Government Financial Position, 2019 – 2021*

| | RM MILLION | | | CHANGE (%) | | |
|---|---|---|---|---|---|---|
| | 2019 | 2020[2] | 2021[3] | 2019 | 2020[2] | 2021[3] |
| Revenue | 322,020 | 288,096 | 297,033 | *10.4* | *-10.5* | *3.1* |
| Operating expenditure | 298,347 | 264,710 | 273,990 | *12.1* | *-11.3* | *3.5* |
| **Current balance** | **23,673** | **23,386** | **23,043** | | | |
| Development expenditure | 57,285 | 56,869 | 75,409 | *-10.2* | *-0.7* | *32.6* |
| COVID-19 Fund[1] | - | 38,000 | 17,000 | | | *-55.3* |
| **Overall balance** | **-33,612** | **-71,483** | **-69,366** | | | |
| **% of GDP** | ***-2.2*** | ***-5.0*** | ***-4.4*** | | | |

[1] A specific trust fund established under 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 2021 Budget measures
Source: Ministry of Finance, Malaysia

[1] Government Finance Statistics Manual (GFSM) 2014 by International Monetary Fund (IMF).
[2] Federal statutory bodies are governed by Federal ministries and are 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.
[3] Articles 111 and 112 of the Federal Constitution (except Sabah and Sarawak, which are allowed to borrow if approved by the Central Bank).
[4] Section 41 and 42 of Local Government Act 1976.

## State Governments

In 2020, the total consolidated revenue of state governments[5] is estimated to increase by 10.6% to RM33.6 billion or 2.3% of GDP. Of the total, 79.9% or RM26.9 billion is from state-generated revenue derived mainly from sales tax, petroleum royalties, investment income, land premiums and land taxes. The balance is from Federal Government transfers and grants. State-generated revenue is expected to rebound 16.3% (2019: -7.1%), mainly attributed to the sales tax imposed by Sarawak on petroleum products. Sarawak, Sabah, Selangor, Terengganu and Johor continue to be the major contributors to the total consolidated state-generated revenue, constituting 83.1% or RM22.3 billion.

Tax revenue is estimated at RM8 billion or 23.9% of total consolidated revenue. Direct tax collection, comprising mainly tax on natural resources such as land, mines and forestry is expected to contribute RM3.4 billion. Indirect tax is projected to record RM4.6 billion or 58% of tax revenue, which is mainly contributed by Sarawak's sales tax[6] at RM3.5 billion, primarily on petroleum products.

Non-tax revenue is expected to register RM13 billion, or 37.5% of the total consolidated revenue. The main components are compensation payment on petroleum-related items at RM3.5 billion, investment income at RM3.5 billion and land premiums at RM2.2 billion. Non-revenue receipts are expected to reach RM12.6 billion, which comprises mainly grants from the Federal Government. These include capitation grants based on annual population projections, State road grants, grants for operating expenditure of departments under the Concurrent List of the Federal Constitution and service charges for the involvement of states' employees in federal development projects.

The total consolidated expenditure of state governments in 2020 is projected to increase by 13.7% to RM25.9 billion, attributed to

**TABLE 6.3.** *Consolidated State Governments' Financial Position, 2019 – 2020*

| | RM MILLION | | CHANGE (%) | |
|---|---|---|---|---|
| | **2019** | **2020[1]** | **2019** | **2020[1]** |
| Revenue | 30,349 | 33,563 | *-3.8* | *10.6* |
| Operating expenditure | 11,895 | 14,278 | *0.2* | *20.0* |
| **Current balance** | **18,454** | **19,285** | | |
| Gross development expenditure | 10,866 | 11,612 | *-17.0* | *6.9* |
| Development Fund | 10,829 | 11,421 | *-17.1* | *5.5* |
| Water Supply Fund | 37 | 191 | *32.1* | *416.2* |
| Less: Loan recovery | 753 | 990 | *163.3* | *31.5* |
| Net development expenditure | 10,113 | 10,622 | *-21.1* | *5.0* |
| **Overall balance** | **8,341** | **8,663** | | |
| **% of GDP** | ***0.6*** | ***0.6*** | | |

[1] Estimate
Source: Ministry of Finance, Malaysia

higher expenditure in both OE and DE. The consolidated OE of state governments is expected to increase by 20% to RM14.3 billion (2019: 0.2%; RM11.9 billion), mainly due to higher transfers and fixed charges as well as supplies and services outlays. The consolidated DE is estimated to increase by 6.9% to RM11.6 billion (2019: -17%; RM10.9 billion).

Among the main development projects carried out in 2020 are the provision of public infrastructures and facilities in Sarawak rural areas, construction and upgrading of roads in Selangor, restoration and upgrading of water treatment plant in Terengganu, as well as the implementation of water supply projects in Terengganu and Pahang. Other projects include the development of administrative centre in Terengganu and implementation of flood mitigation projects in Pulau Pinang. Based

[5] Excluding Federal Territories.
[6] Sales tax in Sabah and Sarawak is under the states' jurisdiction and one of states' main sources of revenue as stipulated in Part V of the Tenth Schedule in Federal Constitution: Additional Sources of Revenue Assigned to States of Sabah and Sarawak.

on the performance above, the consolidated state governments' financial position in 2020 is anticipated to record a current surplus of RM19.3 billion or 57.5% of total consolidated revenue. The state governments' overall balance is estimated to also register a surplus of RM8.7 billion or 0.6% of GDP.

## Non-Financial Public Corporations

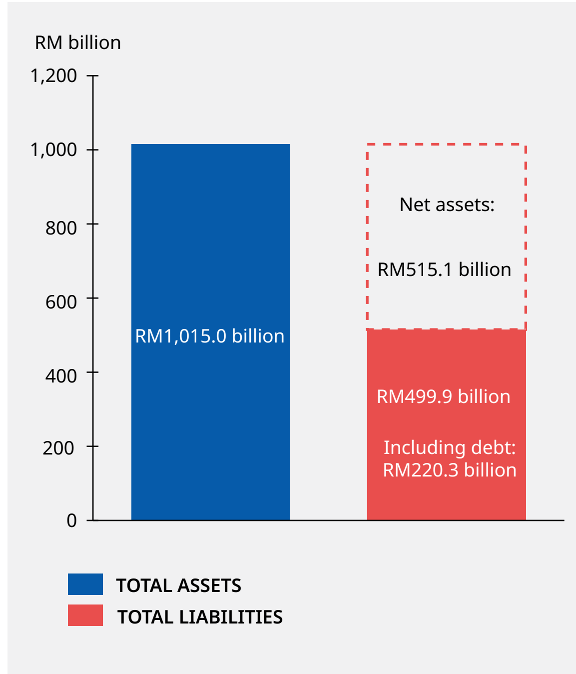
The consolidated financial position of the NFPCs is expected to register a smaller current surplus of RM41.6 billion in 2020 (2019: RM54.1 billion). The decline in current surplus is due to a significant drop in revenue which outpaced the reduction in current expenditure, following weak market environment and cost rationalisation. In addition, the drop in global crude oil prices and slower economic activities due to global movement restrictions have also affected the NFPCs' financial performance. Thus, the overall deficit for 2020 is estimated at RM33.5 billion (2019: RM21.3 billion) or 2.3% of GDP.

**TABLE 6.4.** *Consolidated NFPCs[1] Financial Position, 2019 – 2020*

| | RM MILLION | | CHANGE (%) | |
|---|---|---|---|---|
| | **2019** | **2020[2]** | **2019** | **2020[2]** |
| Revenue | 386,490 | 319,917 | *-2.2* | *-17.2* |
| Current expenditure | 332,439 | 278,280 | *4.7* | *-16.3* |
| **Current balance** | **54,051** | **41,637** | | |
| Capital expenditure | 75,345 | 75,130 | *-6.8* | *-0.3* |
| **Overall balance** | **-21,294** | **-33,493** | | |
| **% of GDP** | ***-1.4*** | ***-2.3*** | | |

[1] Refers to 28 major NFPCs
[2] Estimate
Source: Ministry of Finance, Malaysia

**FIGURE 6.1.** *NFPCs' Assets and Liabilities, End-2019*




Source: Ministry of Finance, Malaysia.

The slower economic growth and decline in the global crude oil prices are the main factors that contribute to the projected decrease in consolidated revenue of the NFPCs by 17.2% to RM319.9 billion or 22.2% of GDP. In 2020, most economic sub-sectors are operating below capacity due to the limited availability of workers and raw materials as a result of the movement restriction, which has led to lower production. In contrast, telecommunications and energy sub-sectors are expected to record a slightly higher revenue, supported by an increase in consumer demand for online purchasing of essential goods and services as well as higher utilisation of internet and utilities due to remote working environment initiatives in the new norms.

Total NFPCs' expenditure for 2020 is estimated to decline to RM353.4 billion or 24.6% of GDP, attributed to lower spending in the current expenditure by 16.3% to RM278.3 billion. During the year, most NFPCs have undertaken significant financial measures and reviewed their business strategies in anticipation of lower revenue collection in 2020. These include the reduction of overheads and input costs to ensure business continuation. Among those affected are airlines, logistics, transportation, tourism, oil and gas industries as well as the construction sector. Nonetheless, capital expenditure is estimated to remain at RM75.1 billion in line with companies' investment plan.

Despite the challenging market condition, the NFPCs are committed to ensuring the companies remain sustainable and at the same time continue to restore its financial performances. NFPCs will continue to implement its ongoing major projects, such as the construction of gas development project in Sabah and Sarawak, Mass Rapid Transit 2 (MRT2), Light Railway Transit 3 and enhancement of digital solution amid the COVID-19 pandemic. The project implementation is in-line with the Government's effort to rejuvenate the economy.