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SECTION 3

Federal Government Expenditure

Overview

The resurgence of COVID-19 cases has forced the Government to reimpose movement control orders (MCOs) that impacted almost all economic sectors and limit social activities. A series of assistance and economic stimulus packages was swiftly introduced to provide immediate assistance to the *rakyat* and businesses. These packages adopt a targeted approach in ensuring impactful measures in effectively softening the impact of the pandemic.

The additional fiscal support was mainly for strengthening the public health system and providing cash assistance to households and businesses. This has resulted in higher spending, particularly for commitments under the COVID-19 Fund. The additional spending was offset by a rigorous expenditure recalibration. In addition, the Government continues to manage its fiscal resources by enhancing spending efficiency, reducing leakages and optimising operating expenditure in the new norm. These initiatives are complemented by close monitoring and regular reporting on a weekly basis, in line with principles of accountability and transparency.

In general, the expenditure commitments during the pandemic crisis have expanded due to the Government's priority to provide sufficient support to the economy. The roll-out of the National Recovery Plan (NRP) and the steady progress of the vaccination programme will facilitate the reopening of businesses, thus help the economy return to its potential growth trajectory. The implementation of the Twelfth Malaysia Plan, 2021 – 2025 (12MP) will also catalyse the recovery process and steer the nation towards achieving prosperity, inclusivity and sustainability in the medium term. At the same time, the principles of accountability and good governance will continue to be enhanced in line with global best practices, as illustrated through the

release of the inaugural Pre-Budget Statement and Public Consultation Papers for the preparation of 2022 Budget. In addition, the Government will regularly conduct expenditure reviews to ensure effective and efficient spending, thus support fiscal consolidation in the medium term.

Performance 2021

The Federal Government's total expenditure for 2021 was budgeted at RM322.5 billion. However, during the year, a series of four assistance and economic stimulus packages, namely Perlindungan Ekonomi dan Rakyat Malaysia (PERMAI), Strategic Programme to Empower the People and Economy (PEMERKASA), Strategic Programme to Empower the People and Economy Plus (PEMERKASA+) and National People's Well-Being and Economic Recovery Package (PEMULIH), totalling RM225 billion, were announced with a fiscal injection of RM25 billion. In general, the packages were in the form of cash assistance for *rakyat* and businesses, particularly for those affected by the extended MCOs due to the pandemic. Furthermore, the additional stimulus and containment measures have put pressure on revenue which is projected to be lower than Budget estimates. The situation necessitated an expenditure recalibration, particularly operating expenditure, which has to be fully funded by revenue in line with the Federal Constitution. Hence, the Federal Government's total expenditure for 2021 was revised downwards to RM320.6 billion, albeit higher than total spending in the previous year (2020: RM314 billion).

The recalibration involved a net reduction of RM1.9 billion in expenditure, resulting from expenditure savings amounting to RM23.9 billion, of which RM22 billion was redirected to finance additional direct fiscal injection under the COVID-19 Fund. Savings in expenditure were generated from the deferment of certain

programmes and projects, suspension of non-critical programmes, revision of allocations for budget measures, as well as expected shortfall in spending due to the delayed progress in the implementation of projects during the MCOs.

Of the total revised allocation, operating expenditure (OE) is estimated at RM219.6 billion (14.5% to GDP), development expenditure (DE) at RM62 billion (4.1% to GDP), while the balance of RM39 billion (2.6% to GDP) is for the COVID-19 Fund. The social sector remains as the largest beneficiary at RM128.5 billion (40.1% of the total), followed by economic (RM66.9 billion; 20.9%), security (RM31.5 billion; 9.8%) and general administration (RM16.7 billion; 5.2%) sectors. Charged expenditures and transfer payments consisting, among others, debt service charges, retirement charges, and transfers to states account for 24% of total expenditure.

The **OE** for 2021 is revised lower by 7.1% to RM219.6 billion from the original budget allocation of RM236.5 billion. The downward revision is mainly attributed to savings in grants and transfers as well as supplies and services. The lower allocation for grants and transfers is due to budget cuts in grants to

statutory bodies with high reserves. Similarly, supplies and services are also revised lower due to the reclassifications of development-related items to DE and savings derived from the suspension of allocation for non-critical items.

Compared with 2020, the revised OE at RM219.6 billion is lower by 2.2% (2020: RM224.6 billion). The lower allocation is predominantly due to the reduced provision for supplies and services at RM23.3 billion (2020: RM29.3 billion), particularly for repairs and maintenance, professional services as well as office supplies. In addition, the outlays for subsidies and social assistance declined to RM16.7 billion (2020: RM19.8 billion) mainly due to the financing of the cash assistance programme through COVID-19 Fund. However, the decline is expected to be offset by higher outlays for fuel subsidies. In addition, emoluments and retirement charges are estimated to increase to RM84.5 billion (2020: RM83 billion) and RM27.6 billion (2020: RM27.5 billion), respectively, mainly due to annual salary and pension increment. Similarly, debt service charges are estimated to increase by 13.1% to RM39 billion (2020: RM34.5 billion), following higher financing needs for DE and

TABLE 3.1. Federal Government Operating Expenditure by Component, 2020 – 2022

| COMPONENT | RM MILLION | | | CHANGE (%) | | | SHARE (%) | | |
|---|----------------|-------------------|-------------------|--------------|-------------------|-------------------|--------------|-------------------|-------------------|
| | 2020 | 2021 ¹ | 2022 ² | 2020 | 2021 ¹ | 2022 ² | 2020 | 2021 ¹ | 2022 ² |
| Emoluments | 82,996 | 84,529 | 86,510 | 3.1 | 1.8 | 2.3 | 36.9 | 38.5 | 37.0 |
| Retirement charges | 27,533 | 27,581 | 28,067 | 6.3 | 0.2 | 1.8 | 12.3 | 12.6 | 12.0 |
| Debt service charges | 34,495 | 39,000 | 43,100 | 4.7 | 13.1 | 10.5 | 15.4 | 17.8 | 18.5 |
| Grants and transfers to state governments | 7,669 | 7,745 | 7,927 | 1.3 | 1.0 | 2.3 | 3.4 | 3.5 | 3.4 |
| Supplies and services | 29,323 | 23,265 | 30,367 | -6.9 | -20.7 | 30.5 | 13.0 | 10.6 | 13.0 |
| Subsidies and social assistance | 19,769 | 16,701 | 17,352 | -17.3 | -15.5 | 3.9 | 8.8 | 7.6 | 7.4 |
| Asset acquisition | 631 | 415 | 533 | -18.1 | -34.2 | 28.4 | 0.3 | 0.2 | 0.2 |
| Refunds and write-offs | 654 | 511 | 375 | -26.8 | -21.9 | -26.6 | 0.3 | 0.2 | 0.2 |
| Grants to statutory bodies | 10,291 | 13,190 | 14,066 | -25.3 | 28.2 | 6.6 | 4.6 | 6.0 | 6.0 |
| Others | 11,239 | 6,663 | 5,203 | -75.3 | -40.7 | -21.9 | 5.0 | 3.0 | 2.3 |
| Total | 224,600 | 219,600 | 233,500 | -14.7 | -2.2 | 6.3 | 100.0 | 100.0 | 100.0 |
| Share to GDP (%) | 15.9 | 14.5 | 14.3 | | | | | | |

¹ Revised estimate

² Budget estimate, excluding 2022 Budget measures

Source: Ministry of Finance, Malaysia

COVID-19 related expenses, while grants and transfers to states and statutory bodies are estimated to increase by 16.6% to RM20.9 billion (2020: RM18 billion).

The year 2021 marks the first year of the 12MP. A sum of RM400 billion is allocated for **DE** under the 12MP, a significant increase of 61% compared to the actual expenditure of RM248.5 billion for the Eleventh Malaysia Plan. The allocation will be channelled to fund new and ongoing projects and programmes planned under the economic, social, security and general administration sectors. These projects and programmes are aligned with the three key themes of 12MP, namely resetting the economy; strengthening security, wellbeing and inclusivity; and advancing sustainability. The themes resonate with the country's longer-term aspirations in the Shared Prosperity Vision 2030 and 2030 Agenda for Sustainable Development.

However, with the expenditure recalibration, DE is revised lower to RM62 billion from the original budget of RM69 billion. The downward revision is also in line with the reassessment and deferment of several projects. Nonetheless, the lower DE is offset by the reclassification of several development-related items from OE. Of the total, RM60.8 billion is direct allocation, while RM1.2 billion are loans to state governments and Government-linked entities.

As the Government continues to focus on the economic sector, the allocation for this sector remains the largest with a share of 54.5%, followed by social (28%), security (11.8%) and general administration (5.7%) sectors. Expenditure for the economic sector is estimated at RM33.8 billion, mainly for enhancing public transportation and communication network infrastructure, developing public utilities, escalating trade and industrial activities as well as boosting agriculture. The transport subsector is allocated with RM13 billion, mainly to finance major ongoing projects, such as Electrified Double Track Gemas-Johor Bahru and Pan Borneo Highway projects, as well as the upgrading of federal roads throughout the country. Energy and public utilities and trade and industry subsectors are allocated RM3 billion and RM2.4 billion, respectively. Some of the key projects and programmes under these subsectors include upgrading works

and construction of sewage treatment plants, providing and improving electricity and water supply, improving entrepreneurial skills for micro-, small- and medium-sized enterprises (MSMEs) as well as encouraging and enhancing technological adoption among businesses. The transport, energy and public utilities, and trade and industry subsectors constitute 29.6% of total DE.

Compared with 2020, the outlays for the social sector in 2021 are expected to increase by 25.5% to RM17.3 billion (2020: RM13.8 billion), with education and training, and health remaining as the key subsectors. The education and training subsector receives the biggest provision of RM8.1 billion, higher by 20.5% as compared with RM6.7 billion in 2020 mainly for the enhancement of technical and vocational education and training (TVET) programmes; upgrading and renovation of schools, teachers' quarters and tertiary institutions; and extension of teaching hospitals. While for the health subsector, a sum of RM4.4 billion or 7.1% of DE is allocated for improving healthcare accessibility and facilities, particularly for rural and outskirt areas. Moreover, this expenditure also includes enhancing and maintaining hospitals and clinics, and purchasing vehicles and equipment. Among the construction projects under this subsector include hospitals in Tanjung Karang, Selangor and Pendang, Kedah as well as expansion of Seberang Jaya Hospital in Pulau Pinang. Meanwhile, the housing subsector receives RM1.6 billion for the year, an increase of 55.9% from actual spending of RM1 billion in 2020. The expenditure for the subsector is focused on the People's Housing Project (PPR) as well as upgrading and maintaining civil servants' quarters.

A sum of RM7.3 billion, an increase of 26.5% from the preceding year (2020: RM5.8 billion), is allocated for the security sector. The bulk of the allocation is for projects and programmes aimed at strengthening the nation's defence and internal security, including upgrading of military and security equipment as well as maintaining and upgrading the security integrated network system. Similarly, the allocation for the general administration sector increases by 17.6% to RM3.6 billion (2020: RM3 billion). The outlays for the sector will be mainly channelled to improve public sector delivery and productivity, with the focus on

TABLE 3.2. Federal Government Development Expenditure by Sector, 2020 – 2022

| SECTOR | RM MILLION | | | CHANGE (%) | | | SHARE (%) | | |
|-------------------------------|---------------|-------------------|-------------------|-------------|-------------------|-------------------|--------------|-------------------|-------------------|
| | 2020 | 2021 ¹ | 2022 ² | 2020 | 2021 ¹ | 2022 ² | 2020 | 2021 ¹ | 2022 ² |
| Economic | 28,712 | 33,767 | 40,205 | -8.3 | 17.6 | 19.1 | 55.9 | 54.5 | 53.2 |
| <i>of which:</i> | | | | | | | | | |
| Transport | 12,779 | 13,014 | 15,509 | -7.1 | 1.8 | 19.2 | 24.9 | 21.0 | 20.5 |
| Trade and industry | 2,576 | 2,365 | 2,087 | -15.7 | -8.2 | -11.8 | 5.0 | 3.8 | 2.8 |
| Energy and public utilities | 2,315 | 2,976 | 3,167 | -16.1 | 28.6 | 6.4 | 4.5 | 4.8 | 4.2 |
| Agriculture | 2,003 | 2,815 | 2,860 | -13.4 | 40.5 | 1.6 | 3.9 | 4.5 | 3.8 |
| Environment | 1,324 | 1,537 | 2,059 | -23.2 | 16.1 | 34.0 | 2.6 | 2.5 | 2.7 |
| Social | 13,827 | 17,347 | 22,671 | -4.5 | 25.5 | 30.7 | 27.0 | 28.0 | 30.0 |
| <i>of which:</i> | | | | | | | | | |
| Education and training | 6,737 | 8,118 | 11,955 | -11.7 | 20.5 | 47.3 | 13.1 | 13.1 | 15.8 |
| Health | 3,983 | 4,397 | 4,457 | 118.0 | 10.4 | 1.4 | 7.8 | 7.1 | 5.9 |
| Housing | 1,015 | 1,582 | 1,771 | -52.3 | 55.9 | 11.9 | 2.0 | 2.6 | 2.3 |
| Security | 5,785 | 7,317 | 8,970 | 3.0 | 26.5 | 22.6 | 11.2 | 11.8 | 11.9 |
| General administration | 3,036 | 3,569 | 3,754 | 9.4 | 17.6 | 5.2 | 5.9 | 5.7 | 4.9 |
| Total | 51,360 | 62,000 | 75,600 | -5.2 | 20.7 | 21.9 | 100.0 | 100.0 | 100.0 |
| Share to GDP (%) | 3.6 | 4.1 | 4.6 | | | | | | |

¹ Revised estimate² Budget estimate, excluding 2022 Budget measures

Source: Ministry of Finance, Malaysia

empowering digitalisation in the public sector. In addition, the allocation is also for the enhancement and maintenance of government buildings, infrastructure and facilities.

COVID-19 Fund

The Government's initiatives in combating the pandemic continue to be financed under the COVID-19 Fund. The implementation of several assistance and economic stimulus packages has led to an increase in the COVID-19 Fund allocation. The fund ceiling, which was initially capped at RM45 billion in 2020, has been increased to RM110 billion to accommodate the additional expenditure under the new assistance and economic stimulus packages.

In line with the increase in its ceiling, the allocation for the Fund for 2021 has been revised upwards to RM39 billion from the initial budget of RM17 billion, higher by 2.6% compared to the actual spending in 2020. The

upward revision is mainly to accommodate higher requirements for programmes such as Bantuan Prihatin Rakyat (RM16.8 billion); Wage Subsidy Programme (WSP) 2.0 (RM9.7 billion); PRIHATIN SME Grant (RM3.4 billion); COVID-19 related expenses (RM2.9 billion); social assistance support to vulnerable groups (RM2 billion); and small-scale projects (RM1.3 billion) which constitute 92.7% of the total allocation for the Fund in 2021.

In 2022, a sum of RM23 billion (1.4% to GDP) is budgeted for the COVID-19 Fund. The bulk of allocation is provided for cash assistance, social assistance support to vulnerable groups and WSP, which will be carried over from 2021. 2022 will be the final year for the COVID-19 Fund as it is a temporary fund with a lifespan of three years. Thus, the total requirement of the fund is estimated to reach around RM100 billion, below the approved ceiling of RM110 billion. The remaining balance will serve as a buffer for contingencies should the need arise.

TABLE 3.3. COVID-19 Fund Allocation

| PROGRAMMES | RM MILLION | |
|--|-------------------|-------------------|
| | 2021 ¹ | 2022 ² |
| Wage subsidy, job retention and workers' hiring incentive and training assistance programmes | 9,670 | 3,000 |
| Bantuan Prihatin Nasional | 16,801 | 8,000 |
| Small scale projects | 1,311 | 2,000 |
| Skill and upskilling programmes | 360 | 1,000 |
| PENJANA SME financing | - | 2,000 |
| PRIHATIN SME Grant | 3,435 | - |
| Micro credit loans under Bank Simpanan Nasional and TEKUN Nasional | 520 | 1,000 |
| Allocation for COVID-19 related expenses | 2,940 | 2,000 |
| Food security fund | 313 | - |
| COVID-19 special allowance for frontliners | - | - |
| PENJANA National Fund | 290 | - |
| ePenjana | 151 | - |
| Electricity bill discounts | 502 | - |
| Additional RM100 for Bantuan Sara Hidup (BSH) | - | - |
| Special assistance to students of higher education institutions | - | - |
| Bumiputera Relief Financing | 200 | - |
| MY30 public transport subsidy | 200 | - |
| Social assistance for taxi drivers, school bus drivers, tour bus drivers, tour guides, trishaw operators and e-hailing drivers | 123 | - |
| Social assistance support to vulnerable groups | 1,980 | 3,540 |
| Smart automation grant | 90 | 460 |
| Soft loan under MyCreative Venture | - | - |
| Social protection and training for gig economy workers | - | - |
| E-Dagang campaign for SME and micro enterprises | 10 | - |
| "Shop Malaysia Online" for online consumption | 40 | - |
| PEKA B40 health care support | - | - |
| Grant for child care centers and kindergartens | 29 | - |
| Digital content fund | - | - |
| Assistance to non-governmental organisations | 10 | - |
| Digitalisation of government service delivery | 15 | - |
| Digitalisation marketing and promotion fund under the Cultural Economy Development Agency (CENDANA) | 10 | - |
| MyAssist SME One Stop Centre | - | - |
| TOTAL | 39,000 | 23,000 |

¹ Revised estimate² Budget estimate, excluding 2022 Budget measures

Source: Ministry of Finance, Malaysia

INFORMATION BOX

COVID-19 Fund Updates

Introduction

The COVID-19 Fund¹ was established in September 2020 to finance economic stimulus packages and recovery plans in addressing the COVID-19 crisis. The establishment of such a dedicated trust fund is in line with international best practices, backed by a strong legal framework, robust gatekeeping arrangements, and solid transparent and reporting standards. In 2020, a sum of RM38 billion was disbursed to finance programmes listed in the Schedule of the Act 830. The expenditure was recorded in the Federal Government Financial Statement, audited by the National Audit Department of Malaysia and subsequently tabled to Parliament.

Current Progress

In December 2020, the Parliament approved an amendment to the Act 830 to increase the COVID-19 Fund ceiling from RM45 billion to RM65 billion to accommodate additional economic stimulus measures. The additional RM20 billion is allocated for Bantuan Prihatin Rakyat (BPR), Wage Subsidy Programme (WSP), PRIHATIN SME Grant and other COVID-19 related expenses. With the COVID-19 pandemic continuing to impact people and businesses in 2021, the Government responded with another four additional assistance packages, namely PERMAI, PEMERKASA, PEMERKASA+ and PEMULIH, totalling RM225 billion with fiscal injection worth RM25 billion. After several recalibrations in the COVID-19 Fund allocation, the requirement for the Fund is estimated to exceed RM65 billion. In this regard, the Government has tabled a second amendment to Act 830 to the Parliament that allows for another increase in the expenditure ceiling up to RM110 billion after taking into account commitments under 2022 Budget. Programmes that require additional allocations are the BPR, WSP, Prihatin SME Grant, small scale projects, microcredit loans under Bank Simpanan Nasional and TEKUN Nasional, other COVID-19 related expenses, and social assistance support to vulnerable groups.

Spending Performance

As at end-August 2021, total spending under the COVID-19 Fund was RM58.9 billion. Major spending was on the cash transfer programme amounting to RM25 billion, constituting 42.4% of total outlays. Under the programme, RM18.6 billion was spent in 2020 and January 2021 for Bantuan Prihatin Nasional (BPN). The balance of RM6.4 billion was subsequently disbursed in several phases under BPR. The BPN benefited almost 10.6 million recipients with income below RM8,000, representing about a third of the population, while BPR benefited more than 8.5 million recipients with income below RM5,000.

In addition, the WSP was introduced through the PRIHATIN economic stimulus package in March 2020 to help eligible employers affected by the COVID-19 pandemic to retain their workers and continue their operations. A total of RM17.3 billion or 29.4% of the total outlays was disbursed for WSP. This programme has benefited more than 350,000 employers and about 2.9 million employees. As for the PRIHATIN SME Grant, the Government has spent about RM5 billion since it was first introduced under the Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN PKS+) package in April 2020. This programme has benefited 0.9 million micro SME entrepreneurs by easing their financial burden and cash flows.

¹ The Fund was established under the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 [Act 830]

TABLE 1: COVID-19 Fund Ceiling and Spending Performance by Programme (RM million)

| | Programmes | Ceiling | | Disbursement (As at end-August 2021) |
|--------------|--|-----------------|------------------|---|
| | | First Amendment | Second Amendment | |
| 1 | Wage subsidy, job retention and workers' hiring incentive and training assistance programmes | 18,300 | 31,000 | 17,280 |
| 2 | Bantuan Prihatin Nasional | 25,200 | 41,000 | 25,008 |
| 3 | Small scale projects | 4,000 | 6,000 | 3,692 |
| 4 | Skill and upskilling programmes | 2,000 | 2,000 | 483 |
| 5 | PENJANA SME financing | 2,000 | 2,000 | - |
| 6 | PRIHATIN SME Grant | 2,400 | 6,000 | 4,986 |
| 7 | Micro credit loans under Bank Simpanan Nasional and TEKUN Nasional | 1,000 | 2,000 | 635 |
| 8 | Allocation for COVID-19 related expenses | 5,000 | 9,000 | 2,623 |
| 9 | Food security fund | 1,000 | 1,000 | 486 |
| 10 | COVID-19 special allowance for frontliners | 600 | 600 | - |
| 11 | PENJANA National Fund | 600 | 600 | 310 |
| 12 | ePenjana | 520 | 520 | 650 |
| 13 | Electricity bill discounts | 500 | 500 | 604 |
| 14 | Additional RM100 for Bantuan Sara Hidup (BSH) | 300 | 300 | - |
| 15 | Special assistance to students of higher education institutions | 300 | 300 | 225 |
| 16 | Bumiputera Relief Financing | 200 | 200 | 200 |
| 17 | MY30 public transport subsidy | 200 | 200 | 198 |
| 18 | Social assistance for taxi drivers, school bus drivers, tour bus drivers, tour guides, trishaw operators and e-hailing drivers | 160 | 160 | 152 |
| 19 | Social assistance support to vulnerable groups | 110 | 6,010 | 994 |
| 20 | Smart automation grant | 100 | 100 | 71 |
| 21 | Soft loan under MyCreative Venture | 100 | 100 | 30 |
| 22 | Social protection and training for gig economy workers | 75 | 75 | 25 |
| 23 | E-Dagang campaign for SME and micro enterprises | 70 | 70 | 30 |
| 24 | "Shop Malaysia Online" for online consumption | 70 | 70 | 56 |
| 25 | PEKA B40 health care support | 50 | 50 | 50 |
| 26 | Grant for child care centers and kindergartens | 50 | 50 | 33 |
| 27 | Digital content fund | 35 | 35 | - |
| 28 | Assistance to non-governmental organisations | 25 | 25 | 11 |
| 29 | Digitalisation of government service delivery | 20 | 20 | 14 |
| 30 | Digitalisation marketing and promotion fund under the Cultural Economy Development Agency (CENDANA) | 10 | 10 | 2 |
| 31 | MyAssist SME One Stop Centre | 5 | 5 | 5 |
| TOTAL | | 65,000 | 110,000 | 58,853 |

Source: Ministry of Finance, Malaysia

Similarly, the spending for small-scale projects stood at RM3.7 billion, or 6.3% of total outlays. The projects identified under this programme are expected to benefit the local community as well as generate spillover effect to the economy. The projects include, among others, repair work of basic infrastructure, public facilities and roads, as well as upgrades of dilapidated schools, public houses and teaching hospitals involved with COVID-19.

For the COVID-19 related expenses programme, a sum of RM2.6 billion was spent for COVID-19 related healthcare services, as well as the purchase of medical apparatus and equipment to increase the capacity of health facilities and ICU wards. Likewise, the spending for social assistance to support and improve the economy of the vulnerable groups stood at RM1 billion with outlays on initiatives such as one-off disbursement for single mothers and disabled persons, Jaringan Prihatin Programme, Food Staples Assistance and Mobile Clinic Programme. The remaining allocation was spent on other programmes, such as ePenjana, Food Security Fund and electricity bill discounts.

Conclusion

The pandemic crisis has necessitated the Government to expand its fiscal support to the economy, mainly the health sector. This was made possible by enactment of the COVID-19 Act, which enables additional borrowing to finance stimulus packages via the COVID-19 Fund. At the same time, transparency and good governance will be upheld through annual tabling and reporting of receipts and expenditures of the Fund to Parliament in line with international best practices. With effective implementation of the stimulus measures and management of the Fund, the Government is confident of achieving its objective of steering the country out of the crisis while maintaining medium-term fiscal sustainability.

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Outlook for 2022

The recovery momentum is expected to gain traction in 2022 in line with the steady progress of the vaccination programme, bolstered by the implementation of the NRP. Furthermore, the recently announced 12MP will be the catalyst to revitalise the economy, promote investments, accelerate digitalisation and strengthen the civil service. Given the need to ensure a durable recovery, the 2022 Budget is formulated with three main objectives: to sustain and spur economic activities, rebuild economic resilience, and catalyse the reform agenda. Hence, the Government will continue its expansionary fiscal stance to steer the country to its potential growth trajectory.

A total sum of RM332.1 billion (20.3% to GDP) will be allocated in the 2022 Budget. Of this amount, RM233.5 billion (70.3%) will be channelled to OE, RM75.6 billion (22.8%) for DE and the balance of RM23 billion for the COVID-19 Fund. In terms of sectoral allocation, RM133.2 billion or 40.1% of the total 2022 Budget will be allocated for programmes and projects under the social sector, followed by

economic (20.3%), security (10.3%) and general administration (4.8%) sectors. The remaining balance amounting to RM81.3 billion (24.5%) will be allocated for charged expenditure and transfer payments.

The **OE** allocation for 2022 is budgeted at RM233.5 billion or 14.3% to GDP. The amount is 6.3% higher compared with the 2021 revised allocation of RM219.6 billion. Emoluments, debt service charges, and retirement charges remain the top three recipients constituting 67.5% of the total OE or 9.6% to GDP.

Emoluments for civil servants account for the largest share of OE in 2022. This component, representing about a third of total OE, is estimated to increase to RM86.5 billion. The increase is partly to cater for the annual salary increment. Likewise, retirement charges are estimated to increase to RM28.1 billion (12% of total OE) due to the annual pension increment, coupled with a higher number of pensioners and beneficiaries estimated at about 628,300. A total of 73.7% of retirement charges comprise monthly pension payments for pensioners and beneficiaries, while the remaining are mainly for gratuity payments and cash awards in lieu of un-utilised accumulated leave.

A total of RM43.1 billion will be allocated for debt service charges in 2022. Of this amount, 98.2% is allocated for coupons on domestic debts, while the balance is for offshore loans. The debt service charges ratio to OE is estimated higher at 18.5%, in line with the use of debt instrument in financing expansionary fiscal stance.

Allocation for supplies and services, which represents 13% of OE, increases by 30.5% to RM30.4 billion. The increase is attributed to higher outlays for medical supplies as well as an allocation for professional services. Ministries that will be receiving the highest allocation among others are the Ministry of Health (33.1%), the Ministry of Home Affairs (12.5%) and the Ministry of Education (11.2%). A substantial amount of outlays will be for the procurement of medical supplies as well as repairs and maintenance of school facilities. Subsidies and social assistance will be allocated a higher allocation of RM17.4 billion (2021: RM16.7 billion), due to higher provision for social assistance. The Government will continuously enhance the current policy and mechanisms to gradually move towards targeted assistance in ensuring more equitable distribution.

A sum of RM14.1 billion will be allocated for grants to statutory bodies, mainly for their operational expenses such as emoluments as well as supplies and services. Grants for public higher education institutions consisting of public universities and teaching hospitals constitute 64.5% of the total allocation. Further, a total of RM7.9 billion is allocated for grants and transfers to state governments. Of this amount, RM5.9 billion are constitutional transfers under the Federal Constitution.

As Malaysia enters the second year of the 12MP, **DE** for 2022 will continue to be distributed to projects and programmes with a high multiplier impact to reinvigorate economic growth, create a conducive investment climate and safeguard the wellbeing of the *rakyat*.

Thus, an allocation of RM75.6 billion will be allocated for DE (2021: RM62 billion). Of the total, RM66.9 billion is allocated for 5,575 ongoing projects, while RM8.7 billion is for 1,180 new projects. The economic sector remains the largest recipient at 53.2% of DE, followed by social (30%), security (11.9%) and general administration (4.9%) sectors.

A sum of RM40.2 billion will be provided for the economic sector to increase economic capacity and enhance the nation's competitiveness. The focus continues to be on projects related to transport, trade and industry as well as energy and public utilities subsectors. The transport subsector will be allocated RM15.5 billion to construct, refurbish, and maintain key infrastructures, such as highways, roads, railways, bridges, ports, and airports. These include existing projects, namely Electrified Double Track Gemas-Johor Bahru, Rapid Transit System Link, Pan Borneo Highway, as well as the expansion of Kuantan Port, Pahang and Sandakan Airport, Sabah. Among the new projects that will be undertaken are upgrading Jalan Marabhai Spur at Tuaran, Sabah, replacing bridges at Sik and Baling, Kedah, and a study on an alternative route for Jalan Seremban-Kuala Pilah, Negeri Sembilan.

Another recipient under the economic sector is the trade and industry subsector, with an allocation of RM2.1 billion. Among programmes under this subsector are for strengthening entrepreneurial capabilities, including MSMEs in line with the National Entrepreneurship Policy 2030. In addition, the focus will also be given to support the growth of industries by providing grants or loans for activities including research and development as well as product commercialisation. These include the PUNB Entrepreneur Financing Programme, Fund for Local Strategic Investment, Fund for High Impact Project, Research and Development Loans for Aerospace and Electric and Electronic field, Special Business Financing Scheme for Women (DanaNITA), and Industry4WRD.

A sum of RM3.2 billion will be allocated to the energy and public utility subsector to provide greater access to the *rakyat*, particularly the supply of electricity and water, telecommunication access and sewerage services. Similarly, the agriculture subsector will be provided with an allocation of RM2.9 billion, mainly for settlers and smallholders development programmes, oil palm and rubber replanting, paddy irrigation system as well as poultry and cattle breedings, which are expected to boost the agro-industry. In addition, the environment subsector will be provided with RM2.1 billion, primarily for river restoration and flood mitigation projects such as the construction of integrated river basins, maintenance of flood reservoir pond, upgrading of dam and stabilisation of river banks.

The social sector, which is the second-largest DE recipient, will be allocated RM22.7 billion. The allocation increases by 30.7% as compared to the RM17.3 billion provided in 2021. Education and training subsector continues to receive the largest allocation under this sector, amounting to RM12 billion, particularly for TVET, research grants, and the construction and expansion of educational institutions. The health subsector will be allocated RM4.5 billion to ensure the availability and accessibility of a comprehensive healthcare system. In addition, the provision will also be utilised for procuring medical service vehicles and equipment. Among the new projects are the construction of Kapar Hospital in Selangor and the upgrading of hemodialysis facilities at the Ministry of Health Malaysia hospitals in Kedah, Penang and Perak, as well as the autopsy room of Sultan Ismail Hospital Forensic Department, Johor.

The Government remain committed to providing adequate and quality affordable houses to the low- and middle-income earners. Thus, RM1.8 billion will be allocated under the

housing subsector, of which the bulk of the allocation will be channeled to the construction of PPR houses and upgrading of civil servant quarters. Other projects under the subsector include Rumah Mesra Rakyat programme and development of zero waste community among selected PPR, such as at Sri Kemuning in Temerloh, Pahang and Seri Sena in Kangar, Perlis.

The security sector will receive RM9 billion to be channelled to defence (60.4%) and internal security (39.6%) subsectors. This involves the enhancement of network systems and services as well as the upgrade of military assets and security equipment. Furthermore, the allocation will be provided for infrastructure projects, such as quarters for security personnel, health facilities and upgrading of prisons.

A sum of RM3.8 billion will be allocated for the general administration sector to strengthen the public sector under the 12MP. Some of the key projects are digitalisation enhancement in the public sector, such as 1GOVNET, MYGOVUC, Court Recording Transcription System or *e-Kehakiman* and the expansion of public sector data centre services. In addition, the allocation is also provided for maintenance of government buildings, assets and facilities, such as quarters, courts and training institutions.

Federal Recoverable Loans

The total outstanding Federal Recoverable Loans¹ as of 31 December 2020 was at RM43.1 billion or 2.6% to GDP. Of the total loans disbursed through the Development Fund, more than half are loans to companies, amounting to RM24.9 billion, followed by state governments at RM13 billion (30.1%) and statutory bodies RM4.9 billion (11.4%).

¹ The Federal Recoverable Loan is part of the Federal Government Financial Assets, which consist of loans facilities due from state governments, local governments, statutory bodies, companies, cooperatives and various organisations.

In addition, the loans were also for local governments amounting to RM143 million (0.3%), other organisations at RM200 million (0.5%) and cooperatives at RM6.8 million (0.02%).

In 2021, the loan disbursement via DE is budgeted at RM1.2 billion or 1.9% of the total DE. Of the total, state governments and companies remain the largest recipients, constituting 91.2% of the total loans disbursed. This is followed by statutory bodies (7.8%) and others (1%). The loans are disbursed to facilitate long-term investment projects, such as road infrastructure, water supply and sewerage.

In 2021, the Government is estimated to receive loan repayments amounting to RM0.8 billion. About 41% of these repayments are expected to be received from state governments. Sabah and Sarawak continue to be the major contributors. Similarly, repayments from companies are also projected at about RM0.4 billion. Bank Pertanian Malaysia Berhad (Agrobank), Pengurusan Aset Air Berhad and Yayasan Tekun Nasional are the top three contributors, with total repayments amounting to RM285.5 million. In addition, total repayments from statutory bodies and local governments are estimated at RM59.2 million and RM5.1 million, respectively. Meanwhile, repayments expected from other organisations such as clubs and associations are estimated at RM35.8 million.

In 2022, the Federal Government is budgeted to provide loans totalling about RM2 billion via DE to state governments, companies, statutory bodies and other organisations. State governments continue to be the highest recipient of loans amounting to RM1 billion, followed by companies (RM0.8 billion), statutory bodies (RM123 million) and

other organisations (RM10.9 million). Loans to companies will be utilised mainly to fund programmes and projects related to water and electricity supply, land rehabilitation for rubber estates, oil palm replanting and highways constructions. Likewise, loans for the state governments, local governments and statutory bodies will be used mainly to upgrade and maintain water supply and sewerage infrastructure, construct dams, and finance crop development projects.

Loan repayments in 2022 are estimated at RM0.6 billion. About half of the total repayments are expected to be received from state governments with major contributions from Sabah, Sarawak and Selangor. Loan repayments from companies are expected at RM0.2 billion, while the balance is from statutory bodies (RM58.6 million), local governments (RM4.2 million) and other organisations (RM11.7 million).

Conclusion

The Government will continue to play its role in mitigating the impact of the COVID-19 pandemic on the *rakyat*, businesses and economy. Its immediate priority is to provide adequate support for the implementation of the NRP, accelerate economic growth and lead the country out of the economic and health crises. Any withdrawal of fiscal injection will depend on the pace of recovery to ensure the economy returns to its growth trajectory. Nevertheless, initiatives to enhance effective and efficient spending will be pursued. At the same time, as illustrated with the inaugural publication of the Pre-Budget Statement and Public Consultation Papers, the Government remain committed to upholding transparency and accountability in its public finance management.

FIGURE 3.1. Total Expenditure by Sector

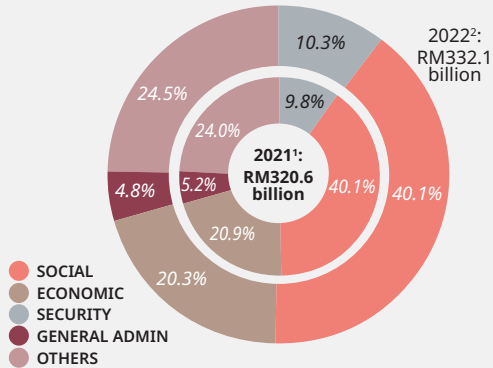


FIGURE 3.2. Total Expenditure by Ministry and Agency

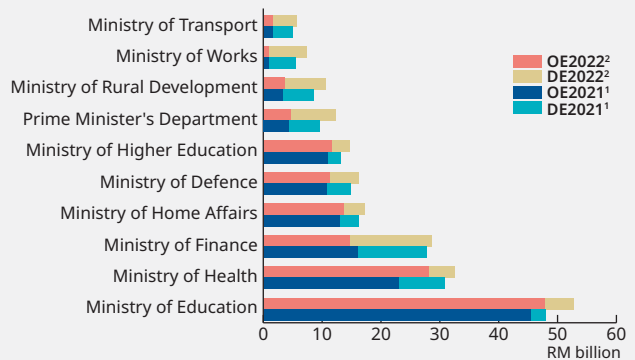


FIGURE 3.3. Operating Expenditure by Component

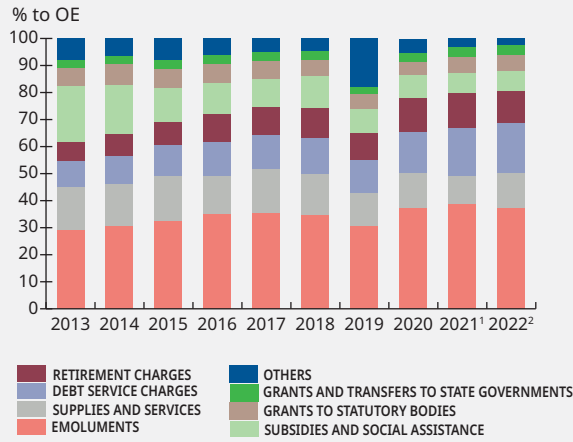


FIGURE 3.4. Operating Expenditure by Sector

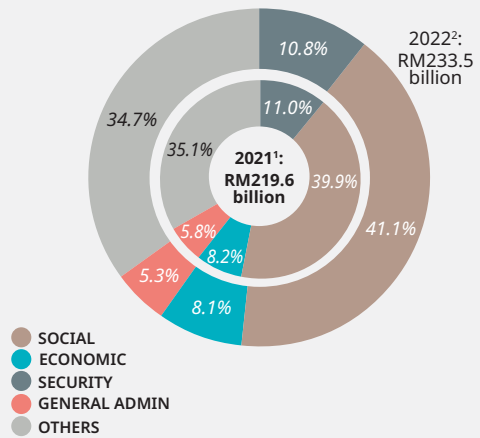


FIGURE 3.5. Development Expenditure by Sector

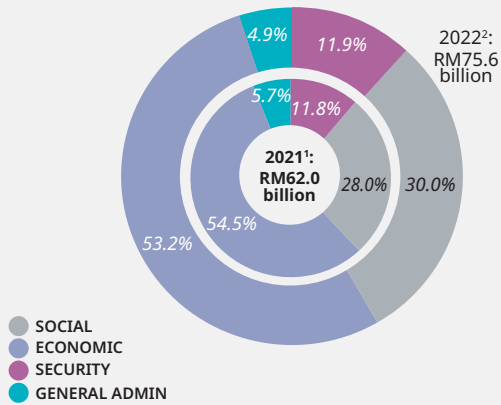
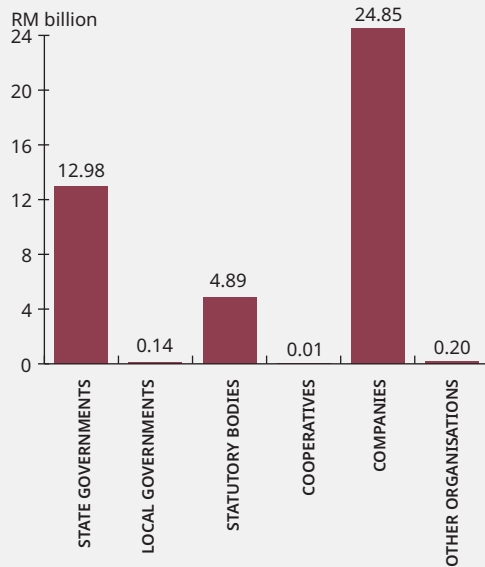


FIGURE 3.6. Federal Recoverable Loans under Development Fund by Debtor, End-2020



¹Revised estimate
²Budget estimate, excluding 2022 Budget measures
 Source: Ministry of Finance, Malaysia

