SECTION 2

Fiscal Policy

SECTION 2

Fiscal Policy

Overview

Fiscal policy has played an important role in supporting recovery momentum and easing the burden of the rakyat while maintaining fiscal discipline. The counter-cyclical measures implemented by the Government have enabled the country to recover from the economic downturn caused by the COVID-19 pandemic. As the economy is gaining momentum, a slowdown in the global economy and prolonged geopolitical tension continue to influence the Government's fiscal and debt position. In this regard, the Government is committed to remain prudent and disciplined in managing public finances to ensure a long-term fiscal sustainability.

The dissolution of Parliament on 10 October 2022 prior to the approval of Budget 2023 requires the Government to table expenditure for part of 2023 before the year commences as stipulated under the Article 102(a), Federal Constitution 1957. Subsequently, on 21 December 2022, Parliament approved the Consolidated Fund (Expenditure Into Account) Act 2022 to allow part of the operating expenditure for 2023 amounting to RM107.7 billion to be paid from the Consolidated Fund until the approval of the Budget 2023. In addition, a sum of RM56 billion under the development fund had also been approved by Parliament. The Budget 2023 will be re-tabled on 24 February 2023.

The fiscal policy stance remains supportive of economic growth despite the change of Government after the 15th General Election. In achieving sound public finances and rebuilding fiscal space, the Government is committed to continue the fiscal consolidation plan, enhance fiscal discipline and ensure debt sustainability. As such, the efforts will be intensified to reduce spending wastages and plug leakages; shifting towards a more targeted subsidy framework and narrowing regional gap; enhance revenue mobilisation, broaden tax base and streamline tax reliefs; strengthen fiscal governance as well as improve transparency and fiscal accountability. Nevertheless, the pertinent issue of rising cost of living, particularly to the vulnerable groups, has prompted the Government to sustain the magnitude of public spending in the Budget and partly to further support growth recovery. A more effective and targeted subsidy mechanism will be rolled out on selected essential goods and services.

Fiscal Position 2022

The transition to the endemic phase served as a catalyst for the better-than-expected economic growth in 2022. Subsequently, the strong economic expansion coupled with higher crude oil prices resulted in a surge of revenue collection. The higher revenue was utilised primarily to cushion the additional requirement for fuel and electricity subsidies.

Revenue surged to RM294.4 billion or 16.5% of GDP while total expenditure recorded RM395.2 billion or 22.1% of GDP. The operating expenditure (OE) increased by 25.4% to RM292.7 billion as compared to budget estimates mainly due to higher requirement for subsidies and social assistance. Meanwhile, the development expenditure (DE) decreased moderately by 5.3% to RM71.6 billion as compared to budget estimates following the reprioritisation and implementation progress of programmes and projects. The COVID-19 Fund spending recorded RM31 billion, higher than the budget estimates of RM23 billion attributed to the increase in the social assistance support to vulnerable groups and electricity bill discounts. Moreover, during the period of 2020 to 2022, the Government announced eight stimulus packages and economic recovery plan worth RM530 billion, of which fiscal injection of RM92.5 billion was allocated under the COVID-19 Fund.

Overall, the Federal Government fiscal deficit for 2022 decreased to 5.6% of GDP, lower than the estimate of 6%. At the same time, the primary deficit which exclude debt service charges recorded 3.3% of GDP.

TABLE 2.1. *COVID-19 Economic Stimulus Packages and Recovery Plan*

PACKAGE	TOTAL VALUE		DIRECT FISCAL INJECTION	
	RM BILLION	% GDP	RM BILLION	% GDP
PRIHATIN	250.0	*17.6*	26.3	*1.9*
PRIHATIN SME+	10.0	*0.7*	10.0	*0.7*
PENJANA	35.0	*2.5*	14.7	*1.0*
KITA PRIHATIN	10.0	*0.7*	10.0	*0.7*
PERMAI	15.0	*1.0*	10.9	*0.7*
PEMERKASA	20.0	*1.3*	8.2	*0.5*
PEMERKASA+	40.0	*2.6*	6.0	*0.4*
PEMULIH	150.0	*9.7*	6.4	*0.4*
Total	**530.0**	***36.1***	**92.5**	***6.3***

Source: Ministry of Finance, Malaysia

Fiscal Position 2023

Fiscal policy remains responsive to address any risks to the country's economy and the well-being of the rakyat due to the uncertainties of the global economic activities. Nevertheless, the Government needs to strike a balance between the quest to accelerate growth momentum and control inflationary pressures as well as continue prudent fiscal management. Therefore, in consonance with the MADANI[1] aspiration, fiscal resources are channelled towards strengthening the social safety net for the rakyat, improving education and learning infrastructure, enhancing the health sector, ensuring food security, boosting impactful investment activity as well as promoting digitalisation and connectivity.

The revenue is expected to be lower at RM291.5 billion or 15.4% of GDP as a result of slower global economic growth and anticipated moderation of commodity prices. Total expenditure is estimated to be slightly lower at RM386.1 billion or 20.4% of GDP mainly due to expiry of COVID-19 Fund and spending optimisation measures. The OE allocation is estimated to decrease to RM289.1 billion primarily due to lower allocation for subsidies following the expected lower crude oil prices and gradual move towards a more targeted subsidy mechanism. Meanwhile, the DE allocation is estimated to increase significantly to RM97 billion for programmes and projects under the 12MP involving construction of highways and public transport infrastructures, health facilities as well as educational institutions. In addition, a sum of USD3 billion is provided for the redemption of 1Malaysia Development Berhad (1MDB) bond.

Overall, the fiscal deficit is expected to consolidate further to 5% of GDP. Similarly, the primary deficit is estimated to reduce further to 2.5% of GDP. The Government is committed to continue the fiscal consolidation plan guided by the Medium-Term Fiscal Framework (MTFF) to ensure the sustainability of public finances.

[1] An effort to drive and restore Malaysia's dignity and glory in the global arena based on six core values namely sustainability, prosperity, innovation, respect, trust and compassion.

TABLE 2.2. *Federal Government Financial Position, 2021 – 2023*

COMPONENT	RM MILLION			CHANGE (%)			SHARE OF GDP (%)		
	2021	2022[3]	2023[4]	2021	2022[3]	2023[4]	2021	2022[3]	2023[4]
Revenue	233,752	294,357	291,500	*3.9*	*25.9*	*-1.0*	*15.1*	*16.5*	*15.4*
Operating expenditure	231,516	292,693	289,140	*3.1*	*26.4*	*-1.2*	*15.0*	*16.4*	*15.3*
Current balance	**2,236**	**1,664**	**2,360**	–	–	–	***0.0***	***0.1***	***0.0***
Gross development expenditure	64,257	71,574	97,000	*25.1*	*11.4*	*35.5*	*4.2*	*4.0*	*5.1*
Less: Loan recovery	992	1,407	700	*-21.2*	*41.8*	*-50.2*	*0.1*	*0.0*	*0.0*
Net development expenditure	63,265	70,167	96,300	*26.3*	*10.9*	*37.2*	*4.1*	*4.0*	*5.1*
COVID-19 Fund[1]	37,711	30,979	–	*-0.8*	*-17.9*	–	*2.4*	*1.7*	–
Overall balance	**-98,740**	**-99,482**	**-93,940**	–	–	–	***-6.4***	***-5.6***	***-5.0***
Primary balance[2]	**60,671**	**-58,214**	**-47,840**	–	–	–	***-3.9***	***-3.3***	***-2.5***

[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] Excluding debt service charges
[3] Preliminary
[4] Budget estimate excluding Budget 2023 measures
Source: Ministry of Finance, Malaysia

Performance 2022

Federal Government Revenue

Federal Government revenue in 2022 recorded RM294.4 billion, a significant growth of 25.9% contributed by better-than-expected tax collection and higher non-tax revenue driven by strong economic recovery and commodity prices. Tax revenue remains as the major contributor to the overall revenue collection constituting 70.9% of total revenue or 11.7% of GDP, while non-tax revenue 29.1% (4.8% of GDP).

Tax revenue increased by 20.2% to RM208.8 billion with the share of direct tax and indirect tax constituting 73.5% and 26.5%, respectively. Direct tax surged by 18% to RM153.5 billion primarily contributed by higher companies income tax (CITA) and petroleum income tax (PITA). The collection from CITA edged up by 2.9% to RM82.1 billion as a result of better corporate profitability and strong economic performance. In addition, a higher CITA collection was also derived from Prosperity Tax amounting to RM7 billion, the one-off tax measures which was announced in Budget 2022 on companies with chargeable income of more than RM100 million. The collection from PITA grew substantially by 102.4% to RM23.4 billion in tandem with soaring global crude oil prices averaging at USD100 per barrel (2021: USD71 per barrel) and strengthening of US dollar. Meanwhile, stamp duty and real property gains tax (RPGT) collection recorded RM8 billion and RM1.4 billion, respectively, reflecting higher gains from property market transactions.

Indirect tax collection recorded a spike by 26.8% to RM55.3 billion contributed by higher Sales Tax and Service Tax (SST) collection amounting to RM31.4 billion. Of this, sales tax recorded RM16.3 billion following higher demand on vehicles as well as machines and spare parts. Meanwhile, service tax increased by 25.7% to RM15.1 billion, primarily contributed by higher demand for food and beverages sector followed by telecommunication and insurance sectors. Likewise, excise duties collection surged by 22.6% to RM12.6 billion, following higher

TABLE 2.3. *Federal Government Revenue, 2021 – 2023*

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Tax revenue	**173,704**	**208,765**	**218,270**	***12.5***	***20.2***	***4.6***	***74.3***	***70.9***	***74.9***
Direct tax	130,116	153,476	164,140	*15.6*	*18.0*	*6.9*	*55.7*	*52.1*	*56.3*
of which:									
CITA	79,829	82,133	96,446	*59.5*	*2.9*	*17.4*	*34.2*	*27.9*	*33.1*
Individuals	27,051	33,776	35,290	*-30.6*	*24.9*	*4.5*	*11.6*	*11.5*	*12.1*
PITA	11,570	23,421	18,242	*-9.4*	*102.4*	*-22.1*	*4.9*	*8.0*	*6.3*
Indirect tax	43,588	55,289	54,130	*4.1*	*26.8*	*-2.1*	*18.6*	*18.8*	*18.6*
of which:									
SST	25,616	31,368	33,340	*-4.3*	*22.5*	*6.3*	*11.0*	*10.7*	*11.4*
Excise duties	10,241	12,556	12,425	*3.9*	*22.6*	*-1.0*	*4.4*	*4.3*	*4.3*
Import duties	2,645	3,192	3,168	*12.7*	*20.7*	*-0.8*	*1.1*	*1.1*	*1.1*
Export duties	2,057	2,622	1,534	*175.7*	*27.5*	*-41.5*	*0.9*	*0.9*	*0.5*
Non-tax revenue	**60,048**	**85,592**	**73,230**	***-15.0***	***42.5***	***-14.4***	***25.7***	***29.1***	***25.1***
of which:									
Licences and permits	10,578	15,626	14,178	*-3.2*	*47.7*	*-9.3*	*4.5*	*5.3*	*4.9*
Investment income	35,018	58,223	47,930	*-24.0*	*66.3*	*-17.7*	*15.0*	*19.8*	*16.4*
Total revenue	**233,752**	**294,357**	**291,500**	***3.9***	***25.9***	***-1.0***	***100.0***	***100.0***	***100.0***
Share of GDP (%)	***15.1***	***16.5***	***15.4***						

[1] Preliminary
[2] Budget estimate excluding Budget 2023 measures
Source: Ministry of Finance, Malaysia

demand for passenger vehicles as a result of extension of sales tax exemption on vehicles which was effective until the first half of 2022. Export duty recorded RM2.6 billion due to higher crude oil price and export volume, in tandem with increasing global demand.

Meanwhile, non-tax revenue increased significantly by 42.5% to RM85.6 billion, largely contributed by higher dividend from PETRONAS amounting to RM50 billion. The Government also received dividend of RM5 billion from Bank Negara Malaysia (BNM) while contribution from Retirement Fund Incorporated (KWAP) totaling RM3 billion to partly finance retirement charges. Furthermore, proceeds from licences and permits recorded RM15.6 billion, an increase of 47.7% mainly contributed by higher receipts from petroleum royalty, motor vehicle licences and levy on foreign workers.

In 2022, petroleum-related revenue registered RM82.4 billion, including the additional dividend from PETRONAS of RM25 billion. Total petroleum-related revenue as a share to GDP increased to 4.6% in tandem with higher average crude oil price and constituted 28% of total revenue. Likewise, non-petroleum revenue grew by 11.2% to RM211.9 billion driven by better corporate earnings which resulted in higher tax installments, higher consumption in the services sector and tax measures announced in Budget 2022. Non-petroleum revenue constituted 72% of total revenue or about 12% of GDP, reflecting continuous efforts of diversifying tax resources, broaden tax base and adoption of digitalisation and technologies to reduce dependency on petroleum-related revenue.

Federal Government Expenditure

Total Federal Government expenditure including the COVID-19 Fund increased by 18.5% to RM395.2 billion as compared to RM333.5 billion in 2021 or 19% higher than the original budget of RM332.1 billion contributed by significant spike in subsidies outlays. Of the total, OE accounted for 74.1%, while DE and COVID-19 Fund represented 18.1% and 7.8%, respectively.

In terms of overall spending by sector, the social sector remained the largest recipient of 37.3% followed by followed by economic (16.5%), security (8.7%) and general administration (4.4%) sectors. Charged expenditures and transfer payments, including debt service charges (DSC), retirement charges, subsidies and social assistance as well as constitutional transfers to state governments make up the remaining 33.1% of the total expenditure. Spending for the social sector was channelled mainly to education and training, health as well as housing subsectors. Meanwhile, the bulk of expenditure under the economic sector was for transportation, agriculture and rural development as well as trade and industry-related programmes.

Total OE increased by 26.4% to RM292.7 billion mainly attributed to the significant surge in fuel, electricity and cooking oil subsidies to cushion the impact of rising global commodity prices. Emoluments remained the largest component representing 30% of OE, amounting to RM87.8 billion while retirement charges stood at RM31.4 billion with RM3 billion financed by KWAP.

The OE spending for subsidies and social assistance surged to RM67.4 billion owing to extraordinary spending for fuel subsidies as a consequence of higher global crude oil prices which averaged at USD100 per barrel. Nevertheless, better-than-expected revenue collections as well as the implementation of spending rationalisation and reprioritisation have softened the burden of higher expenses for fuel subsidies.

TABLE 2.4. *Federal Government Operating Expenditure by Component, 2021 – 2023*

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Emoluments	85,854	87,789	90,765	*3.4*	*2.3*	*3.4*	*37.1*	*30.0*	*31.4*
Retirement charges	29,095	31,397	31,079	*5.7*	*7.9*	*-1.0*	*12.6*	*10.7*	*10.7*
Debt service charges	38,069	41,269	46,100	*10.4*	*8.4*	*11.7*	*16.4*	*14.1*	*15.9*
Grants and transfers to state governments	7,547	8,122	8,077	*-1.6*	*7.6*	*-0.6*	*3.3*	*2.8*	*2.8*
Supplies and services	24,924	34,692	32,037	*-15.0*	*39.2*	*-7.7*	*10.8*	*11.9*	*11.1*
Subsidies and social assistance	23,041	67,358	58,645	*16.6*	*192.3*	*-12.9*	*10.0*	*23.0*	*20.3*
Asset acquisition	596	767	911	*-5.7*	*28.7*	*18.8*	*0.3*	*0.3*	*0.3*
Refunds and write-offs	482	549	459	*-26.3*	*13.8*	*-16.3*	*0.2*	*0.2*	*0.2*
Grants to statutory bodies	13,391	14,014	15,127	*27.2*	*4.7*	*7.9*	*5.8*	*4.8*	*5.2*
Others	8,517	6,381	5,940	*-22.6*	*-20.9*	*-4.8*	*3.5*	*2.2*	*2.1*
Total	**231,516**	**292,693**	**289,140**	***3.1***	***26.4***	***-1.2***	***100.0***	***100.0***	***100.0***
Share of GDP (%)	***15.0***	***16.4***	***15.3***						

[1] Preliminary
[2] Budget estimate excluding Budget 2023 measures
Source: Ministry of Finance, Malaysia

Spending on DSC increased by 8.4% to RM41.3 billion, accounting for 14.1% of OE in tandem with higher borrowings to finance DE and COVID-19 Fund. As a percentage to GDP, the ratio declined to 2.3% as compared to 2.5% in 2021. The Government is constitutionally obligated to serve the DSC ahead of spending on other expenses as stipulated under the Federal Constitution. Meanwhile, expenditure on supplies and services spiked 39.2% to RM34.7 billion mainly due to higher outlays for supplies of materials, professional services, travel expenses, lease and rentals as well as maintenance expenses of buildings and infrastructures.

Grants to statutory bodies, primarily for operational expenses including emoluments as well as supplies and services, increased by 4.7% to RM14 billion. Public institutions of higher learning remained the largest recipients, about 60% of total grants. Meanwhile, grants and transfers to state governments increased by 7.6% to RM8.1 billion, of which RM6.2 billion was constitutional transfers as stipulated under the Federal Constitution such as capitation grant as well as road maintenance grant.

The DE increased by 11.4% to RM71.6 billion in 2022 mainly to support post COVID-19 economic recovery and facilitate the 12MP development agenda. The economic sector remained the largest recipient with 54.6% followed by social (29.5%), security (11.5%) and general administration (4.4%) sectors.

The economic sector expanded 25% to RM39.1 billion with transport; energy and public utilities; as well as agriculture being the three largest subsectors, constituting 30% of total DE. Of the total, RM16.6 billion was spent for the transport subsector primarily to finance new infrastructure development and upgrading of existing roads, railways and airports. Financial obligations arising from strategic projects such as Light Rail Transit (LRT), Mass Rapid Transit (MRT) and Jambatan Sultan Abdul Halim Mu'adzam Shah, Pulau Pinang were also categorised under this sector.

Spending for energy and public utilities subsector amounted to RM2.4 billion to finance, among others, construction and upgrading of sewerage treatment plants and pipes, water treatment facilities as well as water and electricity supplies projects in rural areas nationwide. Meanwhile, the agriculture subsector spending was sustained at RM2.5 billion mainly for oil palm replantation programmes as well as improving rice cultivation and irrigation system.

Outlays for social sector stood at RM21.1 billion with education and training, health as well as housing subsectors being the largest share. The education and training subsector received RM10 billion, particularly for construction, upgrading and renovation of schools and higher education institutions, enhancing technical and vocational education training (TVET) programmes as well as providing professional and skills programmes. Expenditure on health subsector recorded RM4.4 billion mainly for the ongoing construction, upgrading, renovation and repair works of health facilities. The spending is lower as compared to 2021 mainly due to reclassification of medicine supply items as recurrent expenditure. For housing subsector, RM1.7 billion was provided for the construction of affordable housing through Program Perumahan Rakyat (PPR).

Security sector expenditure increased by 9.5% to RM8.2 billion mainly for acquisition and enhancement of military and internal security equipment as well as ongoing construction of offices, quarters and camps. Similarly, general administration sector spending increased by 8.6% to RM3.1 billion primarily for the development of network systems as well as the refurbishment and upgrading of Government's facilities and buildings.

TABLE 2.5. *Federal Government Development Expenditure by Sector, 2021 – 2023*

SECTOR	RM MILLION			CHANGE (%)			SHARE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Economic	**31,284**	**39,115**	**55,035**	***9.0***	***25.0***	***40.7***	***48.7***	***54.6***	***56.7***
of which:									
Transport	12,988	16,560	17,565	*1.6*	*27.5*	*6.1*	*20.2*	*23.1*	*18.1*
Trade and industry	1,756	2,308	2,749	*-31.8*	*31.4*	*19.1*	*2.7*	*3.2*	*2.8*
Energy and public utilities	2,115	2,359	3,240	*-8.6*	*11.6*	*37.4*	*3.3*	*3.3*	*3.3*
Agriculture	2,463	2,548	3,261	*23.0*	*3.4*	*28.0*	*3.8*	*3.6*	*3.4*
Environment	1,310	1,736	2,673	*-1.1*	*32.5*	*54.0*	*2.0*	*2.4*	*2.8*
Social	**22,603**	**21,132**	**26,546**	***63.5***	***-6.5***	***25.6***	***35.2***	***29.5***	***27.4***
of which:									
Education and training	8,230	10,029	13,557	*22.2*	*21.9*	*35.2*	*12.8*	*14.0*	*14.0*
Health	8,719	4,412	4,916	*118.9*	*-49.4*	*11.4*	*13.6*	*6.2*	*5.1*
Housing	1,360	1,653	2,114	*34.0*	*21.5*	*27.9*	*2.1*	*2.3*	*2.2*
Security	**7,498**	**8,210**	**11,517**	***29.6***	***9.5***	***40.3***	***11.7***	***11.5***	***11.9***
General administration	**2,872**	**3,117**	**3,902**	***-5.4***	***8.6***	***25.1***	***4.4***	***4.4***	***4.0***
Total	**64,257**	**71,574**	**97,000**	***25.1***	***11.4***	***35.5***	***100.0***	***100.0***	***100.0***
Share of GDP (%)	***4.2***	***4.0***	***5.1***						

[1] Preliminary
[2] Budget estimate excluding Budget 2023 measures
Source: Ministry of Finance, Malaysia

COVID-19 Fund

As of end-2022, the accumulated outlays of COVID-19 Fund registered RM106.7 billion or 97% of the total ceiling of RM110 billion, of which RM31 billion was spent in 2022. The bulk of the allocation have been channelled for cash assistance programme (RM40 billion); wage subsidy (RM24.3 billion); and COVID-19 related expenses to enhance health equipment and bedding capacity in hospitals' intensive care units as well as to procure test kits, reagents, medicines and sanitisers (RM5.3 billion). The Government has also reprioritised available allocation from the Fund to partly accommodate spending for fuel and electricity subsidies amounting to RM6.3 billion and RM5.9 billion, respectively, to mitigate the impact of higher prices as well as continued additional support to the vulnerable groups.

TABLE 2.6. *COVID-19 Fund Allocation, 2020 – 2022*

NO.	PROGRAMMES	RM MILLION	
		ALLOCATION	SPENDING[1]
1	Wage subsidy, job retention and workers' hiring incentive and training assistance programmes	24,275	24,256
2	Bantuan Prihatin Nasional	40,060	39,960
3	Small scale projects	6,200	6,010
4	Skill and upskilling programmes	1,500	1,229
5	PENJANA SME financing	180	180
6	PRIHATIN SME grant	6,000	5,991
7	Micro credit loans under Bank Simpanan Nasional and TEKUN Nasional	1,410	1,281
8	Allocation for COVID-19 related expenses	6,110	5,325
9	Food security fund	660	579
10	COVID-19 special allowance for frontliners	–	–
11	PENJANA National Fund	600	600
12	ePenjana	821	714
13	Electricity bill discounts	6,590	6,543
14	Additional RM100 for Bantuan Sara Hidup	–	–
15	Special assistance to students of higher education institutions	225	225
16	Bumiputera Relief Financing	200	200
17	MY30 public transport subsidy	400	291
18	Social assistance for taxi drivers, school bus drivers, tour bus drivers, tour guides, trishaw operators and e-hailing drivers	180	167
19	Social assistance support to vulnerable groups	12,795	11,951
20	Smart automation grant	514	404
21	Soft loan under MyCreative Venture	100	63
22	Social protection and training for gig economy workers	75	31
23	E-Dagang campaign for SME and micro enterprise	350	263
24	"Shop Malaysia Online" for online consumption	350	142
25	PEKA B40 health care support	50	50
26	Grant for child care centers and kindergartens	65	63
27	Digital content fund	100	73
28	Assistance to non-governmental organisations	125	65
29	Digitalisation of government service delivery	40	30
30	Digitalisation marketing and promotion fund under the Cultural Economy Development Agency (CENDANA)	20	18
31	MyAssist SME One Stop Centre	5	5
	TOTAL	**110,000[2]**	**106,709**

[1] Preliminary (until December 2022)
[2] The additional fuel and electricity subsidies are excluded from the announced stimulus and recovery packages
Source: Ministry of Finance, Malaysia

UPDATES FOR 2023

Federal Government Revenue

The Government is committed in widening the revenue base in order to achieve a sustainable revenue collection in the medium- and long-term towards achieving high income and developed nation. In addition, various initiatives, among others minimising tax leakages, enhancing tax compliance and effective auditing through enforcement will be given priorities.

In 2023, following smaller proceeds from non-tax revenue resulting from lower crude oil prices, the Federal Government's revenue is projected to decline slightly by 1% to RM291.5 billion. However, the lower non-tax collection is cushioned by an increase in tax revenue which is expected to record RM218.3 billion. Tax revenue remains the major contributor to the Federal Government revenue with a share to GDP remains around 12% while non-tax revenue at 4%.

The collection from direct tax is estimated to increase by 6.9% to RM164.1 billion, constituting 75.2% of total tax revenue. The bulk of the increase is primarily attributed to larger collection from CITA and individual income tax at RM96.4 billion and RM35.3 billion, respectively. The higher collection from CITA is mainly contributed by improved corporate earnings prospects and continuous efforts in enhancing auditing and tax compliance. At the same time, the Government is expected to receive tax due from Prosperity Tax for assessment year 2022. Meanwhile, revenue from other direct tax comprising stamp duty, RPGT and other taxes is expected to increase marginally by 0.1% to RM10.2 billion. The increase in stamp duty and RPGT to RM8.1 billion and RM1.9 billion, respectively, are in line with the expected stable property market.

Indirect tax is anticipated to decrease by 2.1% to RM54.1 billion due to lower collection from windfall profit levy on crude palm oil (CPO) as a result of lower average CPO price forecast in 2023. However, better collection is expected from SST amounting to RM33.3 billion or around 1.8% of GDP. Sales tax collection is projected to increase by 5.6% to RM17.2 billion, primarily contributed by higher demand on machines and spare parts as well as sales of vehicles. Similarly, service tax is estimated at RM16.2 billion, largely contributed by higher demand for food and beverages sector followed by telecommunication and insurance sectors. Excise duties in 2023 is expected to decline by 1% to RM12.4 billion due to lower estimated Total Industry Volume for motor vehicles which correlates with the Malaysia Automotive Association's report.

Non-tax revenue is projected to be lower at RM73.2 billion on account of lower proceeds from investment income mainly from PETRONAS dividend. In 2023, the Government is expected to receive RM40 billion dividend from PETRONAS while dividend from BNM is expected to be lower at RM2.75 billion. Furthermore, contribution from KWAP is expected to remain at RM3 billion to partly finance the retirement charges. Meanwhile, licences and permits is expected to decline by 9.3% to RM14.2 billion due to lower proceeds from petroleum royalty in tandem with the lower average crude oil price. However, other major components for licences and permits such as motor vehicles and levy on foreign workers are forecast to increase to RM3 billion and RM3.5 billion, respectively.

In 2023, petroleum-related revenue is expected to decrease by 20.9% to RM65.2 billion in line with the projected average global crude oil price at USD80 per barrel and lower proceeds from PETRONAS dividend. The petroleum-related revenue to GDP ratio is estimated to decline to 3.5% 3.5%, constituting 22.4% of total revenue. Meanwhile, non-petroleum revenue is projected to increase by 6.8%

to RM226.3 billion in consonance with the Government's initiatives to widen the revenue base coupled with measures under the Medium-term Revenue Strategy (MTRS) and continuous auditing. As a percentage to GDP, non-petroleum revenue is forecast at 12% reflecting less dependency on petroleum-related revenue.

Federal Government Expenditure

Total Federal Government expenditure in 2023 is estimated to decline by 2.3% to RM386.1 billion mainly due to the completion of the COVID-19 Fund as at 31 December 2022. Of this amount, 74.9% will be allocated for OE while 25.1% for DE. In terms of sectoral allocation, 35.2% of the total expenditure is allocated for the social sector, followed by economic (19.1%), security (9.7%) and general administration (5.1%) sectors. Meanwhile, the balance of 30.9% is allocated for charged expenditures and transfer payments.

The allocation for OE is estimated to be slightly lower by 1.2% at RM289.1 billion or 15.3% of GDP. This is primarily due to lower subsidies allocation as commodity prices is anticipated to moderate and a gradual implementation of targeted subsidy mechanism. Nevertheless, allocations for emoluments, retirement charges, DSC and grants to statutory bodies is expected to remain high.

Emoluments is estimated to increase by 3.4% to RM90.8 billion and remains the largest component of OE at 31.4%. The higher outlays for emoluments is due to the special annual salary increment of RM100 on top of annual increments as well as absorption of contract officers to permanent positions, particularly in the health and education sectors.

Retirement charges is projected to remain stable at RM31.1 billion representing 10.7% of total OE. Of this, pension payments make up RM23.9 billion or 76.9% while the balance is for gratuity payments and cash award in lieu of accumulated leave. As Malaysia is now an ageing nation based on the definition by the United Nations, pension liabilities are expected to expand further. As such, the Government is exploring options such as defined contribution scheme to efficiently manage future pension obligations. Meanwhile, the DSC is estimated to grow by 11.7% to RM46.1 billion or 2.4% of GDP as a result of higher accumulated borrowings, particularly during the pandemic.

Supplies and services, constituting 11.1% of OE, is expected to decline by 7.7% to RM32 billion. The reduction stems mainly from lower professional services allocation. As a ratio-to-GDP, supplies and services allocation is estimated at 1.7%. Similarly, subsidies and social assistance is projected to decrease by 12.9% to RM58.6 billion following the expectation of lower global crude oil price and in line with the gradual shift towards targeted subsidies mechanism. Meanwhile, the Government will continue to provide cash assistance aimed at easing the financial burden of the lower income group.

Allocation for grants to statutory bodies is expected to increase by 7.9% to RM15.1 billion. The bulk of the allocation is for operational expenses of 20 public universities and nine teaching hospitals. Meanwhile, grants and transfers to state governments is allocated at RM8.1 billion, of which RM6.1 billion is constitutional grants as mandated under the Federal Constitution.

The year 2023 is the mid-term of the 12MP period where progress of projects and programmes is expected to further accelerate. A total of RM97 billion is allocated for DE to implement quality development projects which emphasise on high-impact investments to further boost the economic growth. The Government is also committed to fulfil its financial obligations including the redemption of USD3 billion 1MDB bond, maturing in March 2023 and other PPP/PFI-related financial commitments.

In terms of sectoral allocation, the economic sector remains the largest recipient at 56.7% or RM55 billion. The transport subsector accounts for 18.1% or RM17.6 billion mainly for construction of roads and highways as well as upgrading of existing roads, airports and ports. Financial commitments for strategic transportation projects such as LRT and MRT continue to be provided. Energy and public utilities subsector will receive RM3.2 billion to upgrade rural public amenities as well as provision of clean water and affordable clean energy. A sum of RM3.3 billion will be allocated for the agriculture subsector to address rising concerns on the nation's food security.

Social services is the second largest sector to receive RM26.5 billion or 27.4% of total DE. Half of the allocation will be earmarked for education and training subsector mainly through construction and upgrading of schools, training institutions and universities. Health subsector will receive RM4.9 billion to build, upgrade and repair health facilities such as upgrading of Melaka General Hospital. Meanwhile, housing subsector will be allocated RM2.1 billion to provide affordable housing such as construction of PPR in Arau, Perlis; Marang, Terengganu; and Machang, Kelantan.

A sum of RM11.5 billion will be channelled for the security sector, of which RM6.4 billion will be allocated to defence subsector while the remaining is for internal security. The allocations are intended to further strengthen the nation's security which include developing integrated network services as well as enhancement of military and security assets. The allocations are also for constructing and upgrading camps, police stations, prisons and quarters. Meanwhile, a sum of RM3.9 billion will be allocated to the general administration sector mainly for enhancing information and communications technology (ICT) systems along with refurbishing, upgrading and fittings of government buildings and facilities.

Medium-Term Fiscal Framework 2023 – 2025

The Medium-Term Fiscal Framework (MTFF) 2023 – 2025 is formulated based on the latest macroeconomic assumptions, which include global economic developments and changes in commodity prices. This framework has been revised with underlying assumptions of real GDP growth averaging 4.5%, crude oil prices at USD80 per barrel and stable crude oil production of 530,000 barrels per day. In addition, the framework also considers several policy responses and reform initiatives to rebuild fiscal buffer and strengthen public finances in the medium- and long-term. The projection includes measures to gradually

TABLE 2.7. *Medium-Term Fiscal Framework (MTFF), 2023 – 2025*

	RM BILLION	% OF GDP
Revenue	908.5	*15.1*
Non-petroleum	734.5	*12.2*
Petroleum-related	174.0	*2.9*
Operating expenditure	889.1	*14.8*
Current balance	**19.4**	***0.3***
Gross development expenditure	264.2	*4.4*
Less: Loan recovery	1.9	*0.0*
Net development expenditure	262.3	*4.4*
Overall balance	**-242.9**	***-4.1***
Primary balance	**-92.3**	***-1.5***
Underlying assumptions:		
Average real GDP growth (%)	4.7	
Average nominal GDP growth (%)	5.9	
Average crude oil price (USD per barrel)	80	
Average oil production (barrels per day)	530,000	

Note: MTFF estimate excluding budget measures
Source: Ministry of Finance, Malaysia

enhance revenue mobilisation as well as reduce spending wastages and shifting towards a more targeted subsidies mechanism.

The revenue is projected at RM908.5 billion or 15.3% of GDP, contributed mainly by non-petroleum revenue which is estimated at RM734.5 billion or 12.3% of GDP. Petroleum-related revenue is forecast at RM174 billion or 2.9% of GDP. Meanwhile, the total indicative expenditure ceiling for the three years is estimated at RM1,153.3 billion or 19.2% of GDP with OE allocation projected at RM889.1 billion or 14.8% of GDP, while DE at RM264.2 billion or 4.4% of GDP. Overall, the fiscal deficit for the MTFF period of 2023 – 2025 is expected to consolidate at a gradual pace with the overall balance averaging at 4.1% of GDP. At the end of 2025, the fiscal deficit is expected to reach 3.2% while the primary deficit at 0.6% of GDP. The lower deficit signifies Government's commitment to further consolidate its financial position and rebuild fiscal space towards ensuring the sustainability of public finances in the long-run.

Conclusion

The Government is committed to enhance governance, accountability and transparency in managing public finances. Efforts will be intensified to further improve the efficiency of the tax system, broaden the tax base, increase the effectiveness of the expenditure management and reduce the fiscal risks exposure towards ensuring sound fiscal policy and prudent debt management. Fiscal reforms initiatives such as the Fiscal Responsibility Act (FRA), MTRS and reviewing of public expenditure will further strengthen the fiscal policy framework in supporting the nation's development agenda and safeguarding the well-being of the rakyat.

FIGURE 2.1. *Federal Government Overall and Primary Balance*

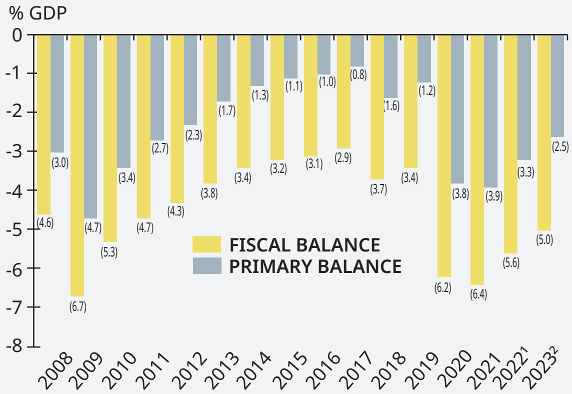


FIGURE 2.2. *Federal Government MTFF Overall Balance*

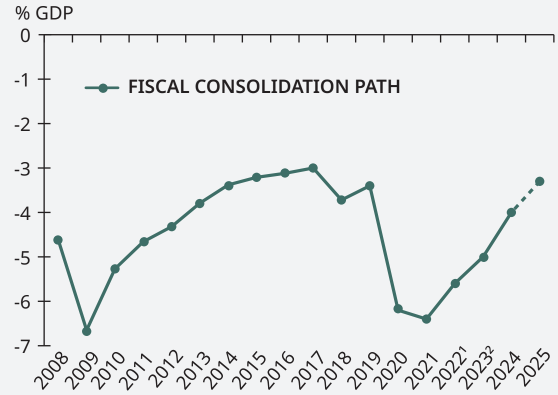


FIGURE 2.3. *Petroleum-Related and Non-Petroleum Revenue (% of total revenue)*

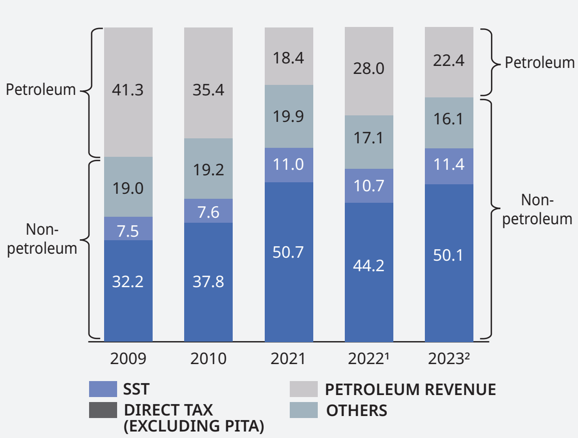


FIGURE 2.4. *Revenue as Percentage of GDP (% of GDP)*

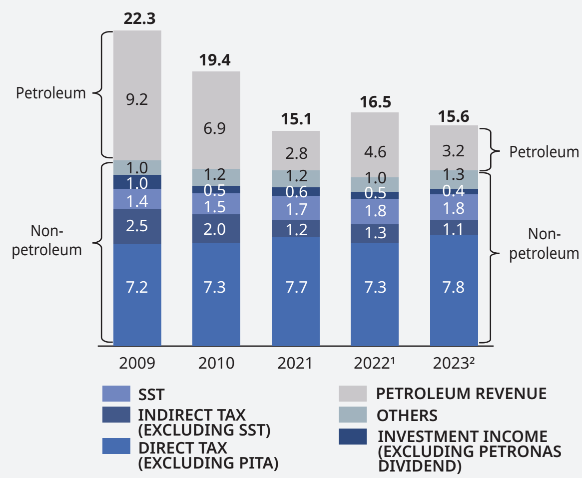


FIGURE 2.5. *Operating Expenditure by Component*

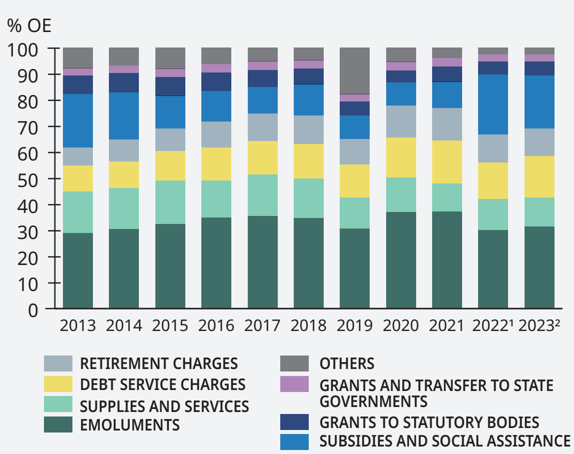
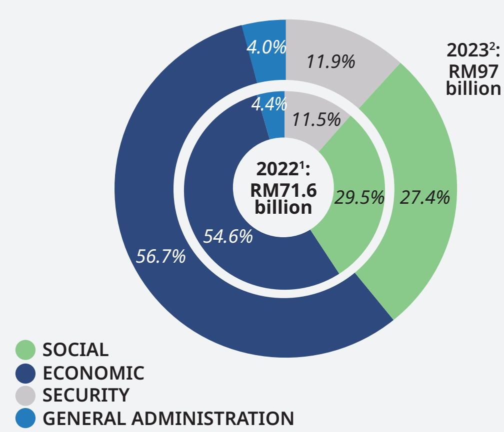


FIGURE 2.6. *Development Expenditure by Sector (% of development expenditure)*



¹Preliminary
²Budget estimate, excluding Budget 2023 measures
Source: Ministry of Finance, Malaysia