SECTION 6

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In Malaysia, the consolidated public sector (CPS) encompasses units within the general government, including the Federal Government, state governments, local governments, and Federal Statutory Bodies; as well as non-financial public corporations (NFPCs). The financial position of the CPS offers a comprehensive valuation of its financial performance to encapsulate the overall scale of the public sector, assess the economic impact of its operations, and determine possible factors of fiscal risk. On the international front, CPS data can be used to facilitate comparative analysis and global benchmarking exercises, such as credit ratings and international bodies' assessment. In order to depict the overall financial position as a consolidated entity, the CPS framework requires the netting off of intra-transactions across each public sector unit.

The financial position of the CPS is projected to record a lower current surplus of RM51.3 billion in 2023, a decrease of 14.4% as compared to the RM60 billion surplus recorded in the preceding year. The narrowing surplus is affected by the current surplus of the NFPCs, which has declined due to higher operating expenses, primarily to facilitate the revitalisation of investment activities as well as to further support the advancement of technology and digitalisation. On the contrary, the consolidated development expenditure (DE) is anticipated to expand by 36.7% to RM203.1 billion, corresponding to higher investments, particularly by the Federal Government and NFPCs. Hence, the overall

TABLE 6.1. *Consolidated Public Sector Financial Position, 2022 – 2024*

	RM MILLION			CHANGE (%)		
	2022	2023[2]	2024[3]	2022	2023[2]	2024[3]
Revenue	267,592	293,126	305,668	*12.8*	*9.5*	*4.3*
Operating expenditure	335,373	340,542	340,725	*23.1*	*1.5*	*0.1*
Current balance	-67,781	-47,416	-35,057	*92.7*	*-30.0*	*-26.1*
NFPCs current balance	127,746	98,734	106,529	*82.9*	*-22.7*	*7.9*
Public sector current balance	**59,965**	**51,318**	**71,472**			
Development expenditure	148,563	203,065	193,771	*18.2*	*36.7*	*-4.6*
General government	74,861	98,323	94,067	*12.7*	*31.3*	*-4.3*
NFPCs	73,702	104,742	99,704	*24.5*	*42.1*	*-4.8*
COVID-19 Fund[1]	30,979	-	-	*-17.9*	-	-
Overall balance	**-119,577**	**-151,747**	**-122,299**			
% of GDP	***-6.7***	***-8.2***	***-6.2***			

[1] A specific trust fund established under the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plans
[2] Revised estimate
[3] Budget estimate, excluding Budget 2024 measures
Source: Ministry of Finance, Malaysia

deficit of the CPS is estimated to increase to RM151.7 billion, constituting 8.2% of GDP in 2023, after netting off intra-transfers, net lending and dividends between units.

General Government

The general government assumes the principal economic functions of the government, which covers the provision of public goods and services, the redistribution of income and wealth as well as the financing of activities through taxation or transfers. Therefore, it is imperative to assess the general government's financial position to measure the impact of government operations as an entity, with the aim of ensuring economic sustainability.

In 2023, the consolidated general government revenue is projected to edge up by 0.5% to RM357.7 billion on the back of an increase in tax collection. Likewise, the consolidated operating expenditure (OE) is estimated to rise by 1.6% to RM341 billion, primarily due to the hike in debt service charges. As a result, it is anticipated that the current surplus of the general government will amount to RM16.6 billion. In addition, it is forecast that the consolidated DE will experience an increase of 32.2% to reach RM99.6 billion, largely attributed to the higher allocation of DE in the Federal Government. However, the total expenditure is estimated to decrease marginally by 0.3% to RM440.7 billion in 2023, resulting from the expiration of the COVID-19 Fund at the end of 2022. Consequently, after netting off intra-transfers and net lending, the general government deficit is projected to decline to RM83 billion or 4.5% of GDP in 2023.

The primary sources of financing for the general government deficit are borrowings from the Federal Government and the utilisation of accumulated reserves. Articles 111 and 112 of the Federal Constitution stipulate that all state governments, with the exception of Sabah and Sarawak, are only permitted to borrow from or with the approval of the Federal Government. Nevertheless, local governments are allowed to borrow, subject to the consent of the respective state governments. Likewise, Federal Statutory Bodies[1] are also eligible to secure financing with the approval of the Federal Government. Thus, the exposure of the general government's credit risk is controlled at the Federal Government level.

TABLE 6.2. *Consolidated General Government Financial Position, 2022 – 2024*

	RM MILLION			CHANGE (%)		
	2022	2023[2]	2024[3]	2022	2023[2]	2024[3]
Revenue	355,890	357,678	364,173	24.8	0.5	1.8
Operating expenditure	335,807	341,045	341,241	23.0	1.6	0.1
Current balance	**20,083**	**16,633**	**22,932**			
Development expenditure	75,356	99,606	94,839	10.8	32.2	-4.8
COVID-19 Fund[1]	30,979	-	-	-17.9	-	-
Overall balance	**-86,252**	**-82,973**	**-71,907**			
% of GDP	***-4.8***	***-4.5***	***-3.6***			

[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 plans
[2] Revised estimate
[3] Budget estimate, excluding Budget 2024 measures
Source: Ministry of Finance, Malaysia

[1] Section 5 of the Statutory Bodies (Power to Borrow) Act 1999.

State Governments

The consolidated revenue collection of state governments is estimated to contract by 8.1% to RM32.4 billion in 2023, of which 82.7% or RM26.8 billion is from state-generated revenue, while the remaining are transfers and grants from the Federal Government. The revenue generated by the state is mainly derived from sales taxes, petroleum royalties, land premiums and investment incomes. Sarawak, Sabah, Selangor, Terengganu and Johor collectively contributed RM22.3 billion to the total state-generated revenue. Notably, Sarawak and Sabah remained the largest contributors, accounting for 62.3% of the total.

Tax collection, both direct and indirect is expected to bring in RM10.6 billion or 32.7% of consolidated revenue. Direct tax is anticipated to register RM3.9 billion or 36.8% of the total, mainly derived from land tax. Meanwhile, indirect tax which predominantly consists of sales tax[2], entertainment duties and port dues, is estimated to record RM6.7 billion, accounting for 63.2% of tax revenue. Sabah and Sarawak are the only states authorised to collect sales taxes, which are projected to generate RM2.3 billion and RM4.2 billion, respectively.

Non-tax revenue is anticipated to register RM13 billion or 40.1% of the consolidated revenue. The primary components of non-tax revenue are petroleum royalties, investment incomes, and land premiums. On the other hand, the Federal Government grants, which include capitation grants, grants for operating expenses, and service charges, are estimated to account for the bulk of non-revenue receipts at RM8.8 billion. The capitation grants are determined based on the annual population projections, whereas grants for operating expenses are stipulated in the Concurrent List of the Federal Constitution. In addition, the service charges are associated with the participation of states' employees in federal development projects.

The consolidated state government expenditure consisting of OE and DE is expected to register RM31.8 billion. The OE is projected to increase by 5% to RM18.2 billion mainly due to higher emoluments, supplies and services as well as transfers and fixed charges. In contrast, the DE is anticipated to increase by 15.5% to RM13.6 billion to finance, among others, the construction and maintenance of roads in Sabah, Sarawak and Selangor; the development of rural areas in Sabah and Sarawak; and water supply projects in Kedah and Pahang.

Consequently, the consolidated state governments' financial position is projected to record a current surplus of RM14.2 billion with continuous support from the Federal Government despite the fiscal challenges faced by the Government. Meanwhile, it is estimated that the overall balance of state governments will register a surplus of RM1.1 billion, or 0.1% of GDP.

TABLE 6.3. *Consolidated State Governments' Financial Position, 2022 – 2023*

	RM MILLION		CHANGE (%)	
	2022	**2023[1]**	**2022**	**2023[1]**
Revenue	35,218	32,370	*25.5*	*-8.1*
Operating expenditure	17,296	18,160	*-0.8*	*5.0*
Current balance	**17,922**	**14,210**		
Gross development expenditure	11,797	13,624	*21.9*	*15.5*
Less: Loan recovery	396	504	*3.8*	*27.4*
Net development expenditure	11,401	13,120	*22.7*	*15.1*
Overall balance	**6,521**	**1,090**		
% of GDP	***0.4***	***0.1***		

[1] Estimate
Source: Ministry of Finance, Malaysia

[2] As stipulated in the Federal Constitution Tenth Schedule, Part V, Additional Sources of Revenue Assigned to the States of Sabah and Sarawak.

Non-Financial Public Corporations

In spite of external headwinds which have persisted throughout the year, NFPCs keep exhibiting the resiliency required for growth. The performance of NFPCs continues to be driven by several economic segments, such as energy, transportation and logistics, as well as ICT services. In this respect, the revenue of NFPCs is projected to record RM521.8 billion or 28.2% of GDP in 2023. The revenue of the O&G subsector is expected to decline slightly, exacerbated by the fluctuation of global commodity prices and volatility in exchange rates.

The total expenditure of the NFPCs is forecast to increase significantly to RM590.6 billion in 2023 or 31.9% of GDP, with the current expenditure and the capital expenditure registering RM485.8 billion and RM104.7 billion, respectively. The increase in expenditures is in tandem with the recovery of economic activity and substantial capital expenditures as the NFPCs reformulate business strategies via digitalisation. As such, the NFPCs' capital investment concentrates primarily on the exploration of non-hydrocarbon-related ventures and liquefied natural gas processing plants; energy transition and power grid infrastructure; rail infrastructure; as well as technological infrastructure and telecommunication services. In addition, the Government's efforts to promote Malaysia as an attractive investment destination, along with the existing policies, such as the National Energy Transition Roadmap, the New Industrial Master Plan 2030 and the Mid-Term Review of the Twelfth Malaysia Plan as guided by the Ekonomi MADANI framework, are anticipated to reinvigorate the NFPCs' investment activities in the medium and long term.

As most countries transition to a low-carbon economy, there will be a greater demand for alternative energy sources, such as renewable energy, which the NFPCs could leverage to boost their business viability. In this regard, the NFPCs are also solidifying their efforts to ensure the capital investment aligns with the commitment towards a low-carbon economy by reducing greenhouse gas emissions and boosting investments in green-related businesses, thereby accelerating progress towards achieving net zero emissions. Among the commitments are the development of carbon capture, utilisation and storage for safe carbon storage to manage domestic and regional emissions; hybrid hydro-solar projects and enhancement of coal power station plants to mitigate possible environmental impacts to the surrounding area; as well as the implementation of a more flexible, hybrid and conducive working environment. These signify an evolution from a traditional profit-centric motivation to a more comprehensive goal, which emphasises environmental, social, and governance elements that are in line with the 2030 Sustainable Development Agenda. In addition to ensuring the continuity of physical projects, a significant proportion of these investments is allocated to fortifying cyber security measures and facilitating digital transformation initiatives.

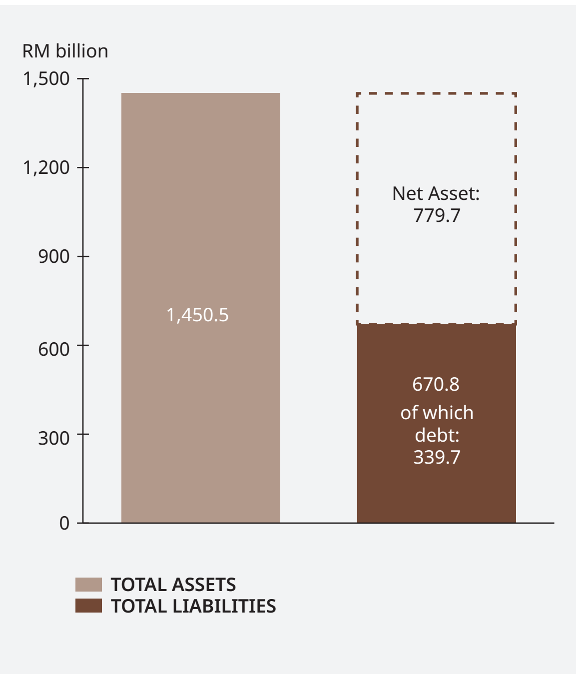
TABLE 6.4. *Consolidated Non-Financial Public Corporations Financial Position, 2022 – 2023*

	RM MILLION		CHANGE (%)	
	2022	2023[1,2]	2022	2023[1,2]
Revenue	533,492	521,794	*41.2*	*-2.2*
Current expenditure	493,078	485,826	*39.3*	*-1.5*
Current balance	**40,414**	**35,968**		
Capital expenditure	73,702	104,742	*24.5*	*42.1*
Overall balance	**-33,288**	**-68,774**		
% of GDP	***-1.9***	***-3.7***		

[1] Refers to 31 major NFPCs
[2] Estimate
Source: Ministry of Finance, Malaysia

The consolidated financial position of the NFPCs is expected to register a current surplus of RM36 billion in 2023. However, the overall deficit is anticipated to increase to RM68.8 billion or 3.7% of GDP, in response to substantial capital outlays for business expansion and investment. Nonetheless, with a net asset of RM779.7 billion, the NFPCs are able to finance their deficit through accumulated retained earnings and borrowings, backed by high-quality assets and prospective revenue streams.

FIGURE 6.1. *NFPCs' Assets and Liabilities*[1]



[1] End 2022
Source: Ministry of Finance, Malaysia

Conclusion

Overall, CPS recorded a substantial rise in the DE in 2023, offsetting the growth of revenue. The increase in revenue mirrors the positive economic trend, while a sizeable amount of the DE will boost public investment to sustain the economic growth trajectory. The right policy mix, coupled with successful structural reforms, is eminent to ensuring the effective implementation of programmes and projects to elevate Malaysia into a progressive and renowned nation, guided by the Ekonomi MADANI framework.