

## **Chapter II**

# **Public Sector Programme And Its Financing**

2.03 The financial position of the public sector has improved considerably, enabling additional resources to be allocated for development in the Sixth Malaysia Plan. Although the resource allocation is higher in absolute terms compared with the Fifth Plan, the ratio of development expenditure in relation to the Gross National Product (GNP) is lower, reflecting the on-going efforts to consolidate the public sector and reduce its direct participation in the productive sectors of the economy. The emphasis will be towards the attainment of a more efficient management of the public sector programme and its finances. Towards this end, measures will be undertaken to strengthen and widen its revenue base, enhance tax buoyancy, control public debt as well as accelerate the implementation of privatization programmes. It is essential to strengthen the public sector revenue position so as to enable the development programmes to be implemented within the context of financial and economic stability and ensure that the budgetary deficits and external borrowings continue to be maintained at the present low levels.

## **II. PROGRESS, 1986-90**

2.04 The public sector consists of the Federal, state and local governments as well as statutory authorities and Non-Financial Public Enterprises (NFPEs). As shown in *Table 2-1*, a total of 50 NFPEs have been included in the definition of public sector. These are large enterprises which have more than 50 per cent government equity share and annual turnover of more than \$50 million. The list of NFPEs will be modified from time to time to take account of changes in equity ownership, revenue and privatization.

2.05 During the Fifth Plan, the overall public sector development expenditure amounted to \$61,850 million compared with a revised allocation of \$64,590 million as shown in *Table 2-2*. Of this amount, the Federal Government expenditure, amounted to \$35,300 million or 57.1 per cent of total overall public sector expenditure, followed by NFPEs at \$17,700 million or 28.6 per cent and State Governments \$8,850 million or 14.3 per cent.

TABLE 2-1  
COMPOSITION OF THE PUBLIC SECTOR

**General Government**

Federal Government  
13 State Governments  
Local Governments  
Statutory Authorities (excluding those listed under NFPEs)

**Non-Financial Public Enterprises<sup>1</sup>**

Antara Steel Mills Sendirian Berhad.<sup>2</sup>  
Cement Industries (Sabah) Sendirian Berhad.  
Cement Manufacturers (Sarawak) Sendirian Berhad.  
FELDA Oil Products Sendirian Berhad.  
FIMA Metal Box Holdings Sendirian Berhad.<sup>2</sup>  
Golden Hope Plantations Berhad.<sup>2, 3</sup>  
Heavy Industries Corporation of Malaysia Berhad.(HICOM)  
Kedah Cement Sendirian Berhad.  
Keretapi Tanah Melayu.(KTM)  
Kontena Nasional Sendirian Berhad.  
Kumpulan FIMA Berhad.  
Kumpulan Guthrie Sendirian Berhad.<sup>2</sup>  
Lembaga Letrik Sabah.  
Lembaga Pelabuhan Bintulu.  
Lembaga Pelabuhan Johor  
Lembaga Pelabuhan Kelang.  
Lembaga Pelabuhan Kuching.  
Lembaga Pelabuhan Sabah.  
Malaysian Airline System Berhad.(MAS)<sup>2</sup>  
Malaysia International Shipping Corporation Berhad.(MISC)<sup>2</sup>  
Malaysia LNG Sendirian Berhad.  
Malaysia Rubber Development Corporation Berhad.(MARDEC)  
Malaysia Shipyard and Engineering Sendirian Berhad.(MSE)  
Penang Port Commission.  
Penang Shipbuilding Corporation Sendirian Berhad.  
Perak Hanjoong Sendirian Berhad.  
Perbadanan Kilang FELDA.  
Perbadanan Nasional Shipping Line Berhad.(PNSL)  
Perbadanan Niaga FELDA.  
Perbadanan Pengangkutan dan Perusahaan Tabung Haji.  
Pernas Edar Sendirian Berhad.  
Pernas International Hotels & Properties Berhad.<sup>2</sup>  
Pernas NEC Telecommunications Sendirian Berhad.  
Pernas Trading Sendirian Berhad.  
Perusahaan Otomobil Nasional Sendirian Berhad.(PROTON)  
Perwaja Terengganu Sendirian Berhad.  
Petroleum Nasional Berhad.(PETRONAS)  
Petronas Carigali Sendirian Berhad.  
Petronas Dagangan Sendirian Berhad.  
Petronas Penapisan Sendirian Berhad.  
Sabah Energy Corporation.  
Sabah Forest Industries.  
Sabah Gas Industries Sendirian Berhad.  
Sabah Shipyard Sendirian Berhad.  
Sarawak Electricity Supply Corporation.(SESCO)  
Sebor (Sabah) Sendirian Berhad.  
Telekom Malaysia Berhad<sup>2</sup>  
Tenaga Nasional Berhad<sup>2</sup>  
The Road Railer Services Berhad.  
Urban Development Authority.(UDA)

**Notes:**

- <sup>1</sup> From original 56, the new list excludes 6 agencies which had been privatised during 1988-90 period. These agencies were Ford Concessionaries Sdn. Bhd, Pernas Sime Darby Trading Sdn. Bhd, Cement Industries Malaysia Bhd.(CIMA), Gula Padang Terap Sdn. Bhd., Malaysian Helicopter Sdn. Bhd. and Koko Malaysia Sdn. Bhd.
- <sup>2</sup> Privatised through listing on the KLSE with government still owning majority share.
- <sup>3</sup> Formerly known as Harrisons Malaysian Plantations Berhad.

TABLE 2-2  
PUBLIC SECTOR DEVELOPMENT ALLOCATION AND EXPENDITURE  
(\$ million)

	5MP					6MP	
	Original Allocation	Mid-term Review	Revised Allocation	Expenditure	Expenditure (%)	Allocation	(%)
a. Federal Government	40,075	32,862	37,290	35,300	57.1	55,000	52.9
<i>Own Sources<sup>1</sup></i>							
b. State Governments	5,000	8,000	9,600	8,850	14.3	12,000	11.5
c. Statutory Bodies & Local Governments	0	250	0	0	0	2,000	1.9
d. NFPEs	28,925	16,400	17,700 <sup>2</sup>	17,700 <sup>2</sup>	28.6	35,000 <sup>2</sup>	33.7
<b>Total</b>	<b>74,000</b>	<b>57,512</b>	<b>64,590</b>	<b>61,850</b>	<b>100.0</b>	<b>104,000</b>	<b>100.0</b>

Notes:

<sup>1</sup> Allocation and expenditure for State Governments, NFPEs, Statutory Bodies and Local Governments reflect the utilisation of their own sources.

<sup>2</sup> Based on Government equity in companies.

2.06 The Federal Government spent about 95 per cent of its revised allocation over the five year period. In spite of this, the Federal Government experienced shortfalls in the early part of the Fifth Plan. This was mainly due to problems in planning and implementation arising from the reordering of programme priorities as a result of the recession. Problems also arose from contractors' inability to complete projects on time. In the light of these, various administrative measures were undertaken to ensure that allocations provided were fully spent so as to reduce the overall shortfall. The shortfalls enabled the Government to reallocate funds to finance new programmes and projects through inter-sectoral transfer of funds and *virements*.

### *Development Expenditure by Sector*

2.07 The development allocation and estimated expenditure of the Federal Government by sector are shown in *Table 2-3*. Economic and social programmes accounted for a major share of development expenditure followed by security and administrative programmes. Of the total Federal Government expenditure of \$35,300 million, the economic sector accounted for 64.8 per cent, social sector 24.8 per cent, security 7.2 per cent and general administration 3.2 per cent.

2.08 In the economic sector, agriculture and rural development programmes accounted for \$7,325 million or 20.8 per cent of the total expenditure while the expenditure in the commerce and industry subsectors amounted to \$3,981 million or 11.3 per cent of the total expenditure. Programmes and projects undertaken in these two subsectors were mainly for rural development as well as poverty eradication and restructuring of society. In the agriculture and rural development subsector, the expenditure was mainly on new land development programmes, *in-situ* development through various Integrated Agricultural Development Programmes (IADPs), replanting, rehabilitation and the provision of infrastructure, drainage and irrigation as well as support services such as credit, marketing, research, extension and incentives for the commercialization of agriculture. In the commerce and industry sub-sector, substantial expenditure was incurred to strengthen the commercial and industrial base. Financial assistance was provided to selected public enterprises in order to improve their efficiency and upgrade technology. Other major programmes included special assistance to develop small- and medium-scale industries (SMIs), export credit to encourage exports and the provision for training and consultancy services to upgrade skills and expertise.

2.09 The expenditure for the transport, communications, energy and water resources subsectors which continued to provide the foundation for the development of the economy was \$11,200 million or 31.7 per cent of the total development expenditure. The transport and communications subsector spent about 92 per cent of the allocation during the Fifth Plan to provide and upgrade various facilities and services in the ports, airports, roads, railways and telecommunications to meet the increasing demands arising from the expansion of the economy. In the energy and water resources subsector, among the programmes implemented were electricity and water supply, sewerage, urban drainage facilities and flood mitigation programmes which contributed to the general improvement of socio-economic conditions and the quality of life.

TABLE 2-3  
**FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION  
 AND EXPENDITURE BY SECTOR, 1986-95**  
 (\$ million)

Sector	Federal Government				
	5MP			6MP	
	Revised Allocation	Expenditure	(%)	Allocation	(%)
<b>I. Economic</b>	<b>24,048</b>	<b>22,886</b>	<b>64.8</b>	<b>31,236</b>	<b>56.8</b>
<i>Agriculture &amp; Rural Development</i>	7,427	7,325	20.8	9,019	16.4
<i>Mineral Resources Development</i>	43	43	0.1	53	0.1
<i>Commerce &amp; Industry</i>	3,981	3,981	11.3	5,752	10.5
<i>Transport</i>	7,393	6,823	19.3	10,759	19.6
<i>Communication</i>	815	792	2.2	73	0.1
<i>Energy</i>	947	918	2.6	979	1.8
<i>Water Resources</i>	2,954	2,667	7.6	3,773	6.9
<i>Feasibility Study</i>	74	52	0.1	228	0.4
<i>Research and Development</i>	414	285	0.8	600	1.1
<b>II. Social</b>	<b>9,046</b>	<b>8,764</b>	<b>24.8</b>	<b>13,468</b>	<b>24.5</b>
<i>Education and Training</i>	5,812	5,700	16.1	8,501	15.5
<i>Health &amp; Population</i>	981	931	2.6	2,253	4.1
<i>Information &amp; Broadcasting</i>	33	20	0.1	128	0.2
<i>Housing</i>	1,452	1,452 <sup>1</sup>	4.1	803	1.5
<i>Culture Youth &amp; Sports</i>	171	131	0.4	341	0.6
<i>Local Town Council, Welf. Services</i>	319	291	0.8	798	1.5
<i>Village &amp; Community Development</i>	275	237	0.7	441	0.8
<i>Purchase of Land</i>	3	2	0.0	203	0.4
<b>III. Security</b>	<b>2,955</b>	<b>2,527</b>	<b>7.2</b>	<b>8,408</b>	<b>15.3</b>
<i>Defence Services</i>	1,858	1,497	4.2	6,000	10.9
<i>Internal Security</i>	1,097	1,030	2.9	2,408	4.4
<b>IV. Administration</b>	<b>1,241</b>	<b>1,123</b>	<b>3.2</b>	<b>1,888</b>	<b>3.4</b>
<i>General Services</i>	1,045	944	2.7	1,657	3.0
<i>Upgrading and Renovation</i>	196	179	0.5	231	0.4
<b>Total</b>	<b>37,290</b>	<b>35,300</b>	<b>100.0</b>	<b>55,000</b>	<b>100.0</b>

Note:

<sup>1</sup> Include housing loan programme for the public sector employee.

2.10 The social sector, comprising education and training, health, housing and other social services accounted for \$8,764 million or 24.8 per cent of the total expenditure. In the education and training subsector, emphasis was given towards expanding facilities, improving quality of education as well as strengthening its delivery systems. In the health subsector, emphasis was given to the upgrading and renovation of existing health facilities as well as the construction of nucleus hospitals and the National Heart Institute.

2.11 The expenditure for the security sector amounted to \$2,527 million or 7.2 per cent of the total expenditure. During the period under review, the capability of armed forces and police was improved to safeguard the security of the nation. Greater priority was focussed on the provision of adequate and suitable accommodation both for the armed forces and police, especially for lower ranking personnel stationed in major towns. Apart from acquiring modern armaments and equipments, better training facilities were also provided.

#### *Development Expenditure for Poverty Eradication and Restructuring of Society*

2.12 During the Fifth Plan, a sum of \$13,660 million was spent for various programmes directed at further improving the poverty situation in the country as well as the standard of living of the rural population. Of the total expenditure, about \$392 million was specifically tailored to meet the needs of the hard-core poverty groups through the Development Programmes for the Poorest. The major expenditure components of the programme were for the provision of subsidized housing and educational assistance as well as the implementation of income-generating projects. For meeting the objectives of restructuring society, about \$2,712 million was spent mainly for education and training, the development of Bumiputera commercial enterprises and the provision of business premises for new entrepreneurs.

#### *Development Expenditure by State*

2.13 The developed States of Selangor and Wilayah Persekutuan spent a total of \$4,128 million or 11.7 per cent of the total development expenditure of the Federal Government, as shown in *Table 2-4*. Although the amount constituted a sizeable proportion of total expenditure, it was primarily to underwrite NFPEs projects such as the National Automobile Industry (PROTON) located in Shah Alam, Selangor and the Sabah Gas Industries project in Labuan.

2.14 The lesser developed States of Kedah, Kelantan and Perlis continued to receive priority. As such, a total of \$4,424 million or 12.6 per cent of the total Federal development expenditure was spent on various programmes and projects in the three states, the bulk of which was for rural development. The implementation of programmes and projects such as IADPs in Lembah Kedah, Kemasin Semerak in Kelantan and in Perlis as well as the padi fertilizer subsidy and other supportive agricultural programmes have enabled productivity and output increases in the agriculture sector in these states.

TABLE 2-4  
FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION  
AND EXPENDITURE BY STATE  
(\$ million)

State	5MP				6MP	
	Revised Allocation	(%)	Expenditure	(%)	Allocation	(%)
Johor	2,658	7.1	2,479	7.0	3,794	6.9
Kedah	2,363	6.3	2,255	6.4	2,826	5.1
Kelantan	1,933	5.2	1,795	5.1	2,064	3.8
Melaka	378	1.0	338	1.0	924	1.7
Negeri Sembilan	911	2.4	779	2.2	1,548	2.8
Pahang	2,496	6.7	2,103	6.0	2,837	5.2
Perak	2,054	5.5	1,870	5.3	2,563	4.7
Perlis	421	1.1	374	1.1	505	0.9
Pulau Pinang	725	1.9	678	1.9	1,548	2.8
Sabah	2,253	6.0	2,083	5.9	2,307	4.2
Sarawak	1,946	5.2	1,839	5.2	3,209	5.8
Selangor	2,288	6.1	2,024	5.7	4,295	7.8
Terengganu	2,063	5.3	2,014	5.7	2,729	5.0
Wilayah Persekutuan	2,228	6.0	2,104	6.0	4,608	8.4
Multi-State <sup>1</sup>	12,566	33.7	12,565	35.6	19,243	35.0
<b>Total</b>	<b>37,290</b>	<b>100.0</b>	<b>35,300</b>	<b>100.0</b>	<b>55,000</b>	<b>100.0</b>

Note:

<sup>1</sup> Multi-state projects are those whose beneficiaries are nation-wide and whose locations cannot be determined.



2.15 In the States of Sabah and Sarawak, greater emphasis was given to the provision and expansion of basic infrastructure as well as to promote agricultural development. A total of \$3,922 million was expended in Sabah and Sarawak for related projects. Major infrastructural and agricultural projects included the construction of the Miri-Bintulu, Sibul-Ulu Batang, Mukah-Bintulu, and Kuching-Sibu roads as well as the Limbang/Semarah Valley and Kalaka Saribas Agriculture Projects in Sarawak and a similar project in Sabah. Such projects contributed to the diversification and strengthening of agricultural growth in these states.

2.16 The middle-income States such as Johor and Pahang similarly received a sizeable proportion of the Federal allocation. About 13 per cent was spent during the Fifth Plan period, particularly towards improving agricultural productivity. IADP Johor Barat II utilized a total of \$1,150 million, while that of Pahang Barat spent more than \$400 million of the development allocation. Federal Government expenditure for the other middle-income States of Melaka, Pulau Pinang and Negeri Sembilan was fairly small, amounting to about \$1,795 million or 5.1 per cent of the total Federal Government expenditure. The expenditure for these states was lower as their basic infrastructure had already been developed.

2.17 About \$12,565 million or 35.6 per cent was expended on multi-state projects which benefited people across states. Of this, \$1,650 million was for the Malaysian Highway Authority, \$1,000 million for housing loans fund for government employees, \$784 million for *Majlis Amanah Rakyat* (MARA) scholarships and loans, \$765 million for multi-state telecommunications services and \$718 million for rural water supply.

#### *Current Expenditure*

2.18 The current expenditure of the Federal Government increased at a slower rate of 5.8 per cent per annum during the Fifth Plan period, as shown in *Table 2-5*. This slower growth was in line with the need to keep expenditure growth within manageable limits, especially in the light of emerging resource constraints following the 1985-86 recession. The expenditure on emoluments which accounted for 36 per cent of total current expenditure, however, increased by 5.6 per cent per annum due to annual salary increments as well as some salary adjustments for civil servants. Although the external debt was substantially reduced through prepayments, the share of debt service charges to current expenditure

remained high at about 26 per cent in 1990 due to the accumulation of domestic debt in place of external borrowing. Other measures taken in line with financial prudence involved the curtailment of expenditure on supplies and services as well as transfers to Government agencies. However, the cutback in current expenditures was selective so as not to adversely affect the operational efficiency and productivity of the public services.

TABLE 2-5  
FEDERAL GOVERNMENT EXPENDITURE AND FINANCING, 1985-95  
(\$ million)

Item	1985	% of GNP	1990	% of GNP	1995	% of GNP	Cumulative		Average Annual Growth Rate (%)	
							5MP	6MP	5MP	6MP
Total Revenue	21,114	29.3	28,997	26.4	40,740	20.0	113,898	182,300	6.6	7.0
Direct Taxes	9,259	12.9	10,394	9.4	13,850	6.8	40,816	62,750	2.3	6.0
Indirect Taxes	7,441	10.3	10,814	9.8	16,970	8.3	38,929	71,140	7.8	9.4
Non-Tax Revenue	3,975	5.5	6,506	6.0	9,160	4.5	30,116	44,750	10.4	7.0
Non-Revenue Receipts	439	0.6	1,283	1.2	760	0.4	4,037	3,660	23.9	-10.0
Current Expenditure	20,066	27.8	26,597	24.2	37,640	18.4	113,501	174,440	5.8	7.2
Development Expenditure	7,142	9.9	10,074	9.3	13,430	6.6	35,301	55,000	7.1	6.0
Repayment <sup>1</sup>	386	0.5	2,456	2.3	500	0.2	6,877	2,500	44.8	-27.3
Overall Deficit (As % of GNP)	5,708	7.9	5,218	4.8	9,830	4.8	28,027	44,640	-1.8	13.5
							6.5	5.5		
<i>Sources of Financing:</i>										
Net Foreign Borrowing <sup>2</sup>	956		(864)				(6,087)			
Net Domestic Borrowing	3,591		3,798				27,734			
Change in Assets	1,149		2,284				6,269			
Special Receipts	12		0				111			

Notes:

<sup>1</sup> loan repayments by State and Local Governments, Statutory Authorities and NFPEs.

<sup>2</sup> ( ) indicates net repayment

### *Sources of Revenue*

2.19 Federal Government revenue registered a moderate growth of 6.6 per cent per annum, amounting to \$28,997 million in 1990, as shown in *Table 2-6*. In spite of the higher economic growth during the second half of the Fifth Plan period, revenue as a percentage of GNP declined from 29.3 per cent in 1985 to 26.4 per cent in 1990. The overall tax buoyancy also deteriorated from 1.0 during the Fourth Plan period to 0.6 during the Fifth Plan period. The lower revenue mobilized was due to increases in tax exemption, allowances and incentives given to the private sector to promote investment as well as lower petroleum and commodity prices. Nevertheless, the contribution of petroleum to Federal Government revenue continued to be substantial, accounting for about 32 per cent of total revenue.

2.20 The Fifth Plan period witnessed changing revenue structure as shown by the declining share of tax to total revenue from 79.1 per cent in 1985 to 73.1 per cent in 1990. Revenue from *direct taxes* declined due to the lower corporate and petroleum profits, particularly during the first half of the Plan period. Taking the Plan period as a whole, the share of direct taxes to total revenue fell from 43.9 per cent in 1985 to 35.8 per cent in 1990. Company income taxes almost stagnated due to the dampening effects following the recession and lower commodity prices experienced during the early part of the Fifth Plan as well as the tax concessions and incentives given to the private sector since 1986 which eroded the corporate income taxes base. In contrast, individual income taxes increased by 8.8 per cent per annum during the Fifth Plan period, largely as a result of greater tax efforts as well as the intensification of tax enforcement. As the economy expanded rapidly in the second half of the Plan period, revenue from direct taxes improved significantly, from \$6,467 million in 1987 to \$10,394 million in 1990.

2.21 *Indirect taxes* which grew by 7.8 per cent annually during the Fifth Plan period, contributed significantly to Federal Government revenue. Its share in total revenue increased from 35.2 per cent in 1985 to 37.3 per cent in 1990. The increase was mainly due to improvements in revenue from import duties, surtax, excise duties and sales tax. Higher imports, together with stronger consumer spending and improvements in the administration of sales tax, had contributed significantly to increases in indirect taxes. Consequently, the contribution of indirect taxes to total revenue had overtaken that of direct taxes.

TABLE 2-6  
FEDERAL GOVERNMENT REVENUE, 1985-95  
(\$ million)

Source	1985		1990		1995		Cumulative		Average Annual Growth Rate (%)	
		(%)		(%)		(%)	5MP	6MP	5MP	6MP
<b>DIRECT TAXES</b>	9,259	43.9	10,394	35.8	13,850	34.0	40,816	62,750	2.3	6.0
Income Taxes	8,799	41.7	9,675	33.3	12,680	31.0	38,507	57,890	1.9	5.6
Company	3,920	18.6	4,124	14.2	6,280	15.4	16,901	27,150	1.0	8.8
Individual	1,749	8.3	2,667	9.2	3,680	9.0	10,062	15,850	8.8	6.7
Petroleum	3,130	14.8	2,884	9.9	2,720	6.6	11,544	14,890	-1.6	-1.2
Other Direct Taxes	460	2.2	719	2.5	1,170	3.0	2,309	4,860	9.3	10.2
<b>INDIRECT TAXES</b>	7,441	35.2	10,814	37.3	16,970	41.6	38,929	71,140	7.8	9.4
Export Duties	1,839	8.7	1,968	6.8	1,360	3.4	7,359	7,740	1.4	-7.0
Petroleum	1,639	7.8	1,910	6.6	1,190	3.0	6,737	7,130	3.1	-9.0
Others	200	0.9	58	0.2	170	0.4	622	610	-21.9	24.0
Import Duties & Surtax	2,518	11.9	3,428	11.8	5,650	13.8	12,733	23,480	6.4	10.5
Excise Duties	1,376	6.5	2,267	7.8	4,190	10.3	8,455	16,530	10.5	13.0
Sales and Services Tax	1,341	6.4	2,562	8.8	4,830	11.8	8,302	19,630	13.8	13.5
Other Indirect Tax	367	1.7	589	2.1	940	2.3	2,080	3,760	9.9	9.8
<b>NON-TAX REVENUE</b>	3,975	18.8	6,506	22.5	9,160	22.4	30,116	44,750	10.4	7.0
Petroleum <sup>1</sup>	1,549	7.3	2,927	10.2	3,760	9.2	12,194	18,800	13.6	5.0
Income from Divestment	-	-	-	-	1,000	2.4	1,988	5,000	-	-
Other Non-Tax Revenue <sup>2</sup>	2,426	11.5	3,579	12.3	4,400	10.8	15,934	20,950	8.1	4.2
<b>NON REVENUE RECEIPTS</b>	439	2.1	1,283	4.4	760	2.0	4,037	3,660	23.9	-10.0
<b>TOTAL</b>	<b>21,114</b>	<b>100.0</b>	<b>28,997</b>	<b>100.0</b>	<b>40,740</b>	<b>100.0</b>	<b>113,898</b>	<b>182,300</b>	<b>6.6</b>	<b>7.0</b>

Notes:

- <sup>1</sup> Includes petroleum dividend and royalties on petroleum & gas.
- <sup>2</sup> Includes items such as government commercial undertakings, interest and returns on investment, licences and services fees, licenses and permits, profit from Bank Negara Malaysia and road tax.

2.22 Likewise, total *non-tax revenue* and *non-revenue receipts* increased substantially, reflecting mainly higher dividend and royalty payments from petroleum and gas as well as receipts from sale of Government equity under its privatization programme. These sources of revenue have to a large extent helped to offset the slower growth of revenue from other sources.

#### *Sources of Borrowings*

2.23 During the Fifth Plan period, the cumulative surplus in the current account of Federal Government was only \$397 million, as a result of the large deficit experienced during 1986-87 period. However, following the slower growth in operating expenditure and the improvement in revenue as a result of rapid economic recovery during the second half of the Plan period, the current account improved steadily during 1990. Moreover, with the sharp cutback in Federal Government development expenditure, especially during 1987-88 period, the overall deficit as a percentage of GNP declined substantially from 11.2 per cent in 1986 to 4.8 per cent in 1990, as shown in *Table 2-5*. However, during the Plan period, the overall deficit was maintained at a sustainable level of 6.5 per cent in line with the objectives of maintaining prudence and macro-economic stability as well as ensuring adequate resources for the private sector.

2.24 In financing the Federal Government deficit, greater reliance was placed on non-inflationary domestic sources to take advantage of the high liquidity position in the domestic market. Of the total domestic borrowing of \$34,160 million, about \$8,900 million or 26 per cent was for external debt prepayments. The Employees Provident Fund (EPF) continued to be the main source, accounting for some 56 per cent of the Federal Government net domestic borrowing.

2.25 During the Fifth Plan period, gross *external borrowing* of the Federal Government amounted to \$9,750 million. However, as a result of repayment and prepayments, amounting to \$15,835 million, there was a cumulative net repayment on external borrowing of \$6,087 million. Consequently, the total outstanding external debt of the Federal Government which stood at \$28,310 million at the end of 1986 declined substantially to \$24,668 million in 1990. In terms of sources of external borrowing, the outstanding amount of market loans declined slightly from \$16,300 million at the end of 1985 to \$16,182 million in 1990. The decline in market borrowing during the Fifth Plan period was to minimize the impact of large variations in exchange and interest rates in the major

lending countries. To a large extent, this has improved the level and cost of servicing the external debt. The outstanding amount of project loans from both multilateral and bilateral sources rose from \$5,683 million in 1985 to \$8,067 million in 1990, thereby increasing its share in total outstanding loans from 24.6 per cent in 1985 to 32.7 per cent in 1990.

2.26 Significant progress was made in increasing the operating surplus of NFPEs, with the cumulative surplus amounting to \$20,796 million or almost 53 per cent of the public sector current surplus, as shown in *Table 2-7*. The current surplus of NFPEs, which deteriorated markedly from \$5,649 million in 1985 to \$2,825 million in 1986 recovered to reach \$5,334 million in 1990. This was due to the rapid recovery in the economy as well as improvements in the financial and overall management of NFPEs. A substantial proportion of the surplus was accounted for by a few NFPEs, notably *Petroleum Nasional Berhad (PETRONAS)*, *Tenaga Nasional Berhad* and *Telekom Malaysia Berhad*.

2.27 Development expenditure of NFPEs during the Fifth Plan period fell from \$6,186 million in 1985 to \$4,995 million in 1990. This reduction was in line with the Government's efforts to improve its overall fiscal deficit through smaller grants and loans to NFPEs as well as to reduce the public sector debt burden. NFPEs gross external borrowing was substantially reduced while repayments, including prepayments, increased resulting in a net repayment of \$5,844 million during the Fifth Plan. As a result, their total external debt declined substantially from \$15,030 million in 1986 to \$11,846 million in 1990.

2.28 With revenue exceeding current expenditure, the savings of the public sector as a whole improved considerably during the Fifth Plan period. In terms of the overall deficit, there was significant improvement due to the large reduction in development expenditure, particularly during the 1986-88 period, following the recession. The public sector overall deficit as a percentage of GNP declined substantially from 9.8 per cent in 1986 to 3.3 per cent in 1990. The total outstanding public sector external debt which peaked at \$44,767 million in 1987 declined to \$36,514 million in 1990, while the debt service ratio fell from 15.8 per cent in 1985 to 7.2 per cent in 1990. This reflected the cautious fiscal policy of the Government to ensure macro-economic stability and improve internal strength and resilience to withstand the adverse external environment.

TABLE 2-7

CONSOLIDATED PUBLIC SECTOR EXPENDITURE AND FINANCING, 1985-95  
( \$ million )

Item	1985	% of GNP	1990	% of GNP	1995	% of GNP	Cumulative		Average Annual Growth Rate (%)	
							5MP	6MP	5MP	6MP
<b>General Government<sup>1</sup></b>										
Revenue	26,289	36.5	36,149	32.9	49,590	24.2	146,525	222,940	6.6	6.5
Operating Expenditure	22,136	30.7	28,909	26.3	38,760	19.0	127,719	180,030	5.5	6.0
Current Surplus/Deficit	4,153	5.8	7,240	6.6	10,830	5.2	18,806	42,910	11.8	8.4
NFPEs Current Surplus	5,649	7.8	5,334	4.9	5,770	2.8	20,796	28,900	-1.1	1.6
Public Sector Current Surplus	9,802	13.6	12,574	11.5	16,600	8.0	39,602	71,810	5.1	5.7
Development Expenditure	13,038	18.1	16,237	14.8	24,790	12.0	57,719	104,000	4.5	8.8
General Government NFPEs <sup>2</sup>	6,852	9.5	11,242	10.3	16,310	8.0	37,566	66,170	10.4	7.7
Public Sector Overall Deficit (As % of GNP)	6,186	8.6	4,995	4.5	8,480	4.0	20,153	37,830	-4.2	11.2
	3,236	4.5	3,663	3.3	8,190	4.0	18,117	32,190		
<i>Sources of Financing</i>										
Net Foreign Borrowing <sup>3</sup>	1,667		(1,934)				(10,912)			
Net Domestic Borrowing	3,747		3,563				26,104			
Change in Assets & Special Receipts <sup>4</sup>	(2,178)		2,034				2,925			

## Notes:

<sup>1</sup> General government comprises of Federal Government, state governments, statutory authorities and local governments

<sup>2</sup> Includes capital transfers & net borrowing from Federal Government.

<sup>3</sup> ( ) Indicates net repayments.

<sup>4</sup> ( ) Indicates build up in assets; + draw down in assets.

### *Privatization*

2.29 In line with the Government's policy of reducing the size of the public sector and improving its efficiency and productivity as well as to meet the restructuring objective, several privatization programmes were undertaken during the Fifth Plan. These included partial or total divestment of several Government companies, corporatization of selected government departments, leasing of several government facilities to the private sector, management of government-owned installations by private sector management contract and construction of new projects through *Build-Operate* (BO) or *Build-Operate-Transfer* (BOT) arrangements and through *management-buy-outs* of existing Government companies or facilities. The major companies privatized during the Fifth Plan period are shown in *Table 2-8*. This programme involved capital divestment of more than \$2,000 million, a reduction of 54,000 employees and a saving of more than \$400 million per year in emoluments. In addition, the Government saved some \$5,000 million in terms of capital expenditure through the implementation of the BOT concept for projects, such as the North-South Highway and Labuan water supply. This programme released additional resources to improve further the financial position of the Government.

### *Technical Assistance*

2.30 The total quantum of technical assistance received from both multilateral and bilateral sources during the period amounted to \$531 million. Of this, 75 per cent originated from bilateral sources which were channelled to training, feasibility studies, provision of experts, consultants, volunteers and equipment in the education, agriculture and industrial sectors.

2.31 While Malaysia continued to receive technical assistance, it also extended technical assistance on a modest scale to other developing countries under the Malaysian Technical Cooperation Programme (MTCP). MTCP which symbolises Malaysia's willingness to share its development experience with other developing countries was extended to 46 countries during the Fifth Plan. During the period, the total amount of technical assistance provided to these countries under the MTCP was \$29 million. The emphasis of MTCP is on the development of human resources through training and the sharing of Malaysian experience and expertise in the development process.



TABLE 2-8

## MAJOR ENTITIES PRIVATIZED, 1986-90

(I) Divestment	Year
Klang Container Terminal	1986
Malaysian International Shipping Corporation Berhad (MISC)	1986
Syarikat Gula Padang Terap Sendirian Berhad	1989
Cement Manufacturers Sarawak Berhad	1989
Cement Industries of Malaysia Berhad (CIMA)	1990
Edaran Otomobil Nasional Berhad (EON)	1990
Telekom Malaysia Berhad	1990
Holiday Villages Sendirian Berhad	1990
Pernas International Hotels and Properties Berhad	1990
Peremba Berhad	1990
Kumpulan FIMA Berhad	1990
Penanti Quarry, Pulau Pinang	1990
Kuala Dipang Quarry, Perak	1990
Sungai Long Quarry, Selangor	1990
 (II) Corporatization	
Tenaga Nasional Berhad	1990
 (III) BO/BOT	
Labuan Water Supply Project	1987
Kuala Lumpur Interchange	1987
North-South Highway	1988
Ipoh Water Supply	1989
Larut-Matang Water Supply	1989
 (IV) Management Contract	
Semenyih Dam	1987
Marketing of Airtime, Radio Malaysia	1987
RISDA Marketing Activities	1987
Maintenance of Tube wells, Labuan	1988
 (V) Lease	
Klang Container Terminal	1986

### **III. PROGRAMMES AND FINANCING, 1991-95**

2.32 Efforts to consolidate the public sector will continue to be pursued in the Sixth Plan. Towards this end, fiscal and monetary measures will focus on greater prudence in the management of resources to ensure sustainable development. In addition, the Government will further improve its efficiency and provide the necessary economic and social infrastructures to facilitate the dynamic growth of the private sector to spearhead the economy.

2.33 In consonance with this objective, public sector expenditure as a proportion of GNP will be reduced further. In absolute terms, however, the allocation for the Sixth Plan will be increased by 60 per cent over the Fifth Plan revised allocation in order to complete the implementation of a large number of projects which were started during the Fifth Plan. Many of these projects were affected by the expenditure cutbacks during the recession in 1985-86 and by the re-scheduling of project implementation. Another reason for the increase under the Sixth Plan is the significant allocation for the defence sector, mainly for the modernization and upgrading of the armed forces. Increased fundings will be provided in the Sixth Plan for the expansion of physical and social infrastructures to support the growth process and to enable the economy to absorb the rapid increases in private investment taking place in the country. The high priority projects will be the expansion of the transport and communication systems, the upgrading of human resources through improvements in education, training and health, and the development of science and technology. The programmes for poverty eradication and restructuring of society consistent with NDP will continue to be given priority in the allocation of resources. However, the increases will not be substantial as most of the basic needs in the rural areas, especially in Peninsular Malaysia, have already been largely met through past investments made on rural roads, water supply, electricity, agriculture and land development. The allocation for Sabah and Sarawak will be substantially increased in view of the lower coverage of these facilities in the states.

2.34 To ensure the full implementation of programmes and projects during the Sixth Plan, emphasis will be given to programmes and projects which are readily implementable, namely, those programmes and projects in which feasibility studies, soil tests and surveys have been completed. In addition, continued efforts will be made to improve the implementation capability of agencies and strengthen their expertise in project identification and implementation.

### *Development Allocation*

2.35 The total public sector development allocation for the Sixth Plan will amount to \$104,000 million, as shown in *Table 2-2*. While this level of allocation is higher than previous Five Year Plans, it is lower in terms of its ratio to GNP, as shown in *Table 2-9*.

2.36 The total Federal Government development allocation will amount to \$55,000 million, of which \$18,966 million or 34 per cent will be required for continuation projects. The details of allocation by state governments, statutory bodies, local governments and NFPEs, as shown in *Table 2-2*, only reflect their own sources of funding. Apart from this, they will also receive transfers from the Federal Government for their development expenditure.

### *Development Allocation By Sector*

2.37 During the Sixth Plan period, the economic sector will be given the largest allocation amounting to \$31,236 million, as shown in *Table 2-3*. However, its share in total allocation will decline from 65.2 per cent in the Fifth Plan to 56.8 per cent in the Sixth Plan, reflecting generally the reduced presence of the Government in the productive activities of the economy where the private sector can perform a larger role. Furthermore, Federal Government financing will no longer be required for agencies which have been privatized.

2.38 Within the economic sector, agriculture and rural development will be allocated \$9,019 million or 16.4 per cent of the Federal Government allocation. The thrust of the sector's programmes will be towards improving efficiency, increase productivity as well as revitalizing the sector, so as to maximize income and eradicate poverty among the rural community. In terms of priority, *in-situ* development involving land consolidation, rehabilitation, replanting, drainage, irrigation and flood mitigation will be given the largest allocation of \$4,117 million or 46 per cent of the sector's total allocation. The *in-situ* thrust to modernize and commercialize smallholder agriculture becomes all the more important in the light of the scarcity of suitable new land in Peninsular Malaysia and the constraints of high-cost development and availability of settlers in Sabah and Sarawak. As such, revitalizing existing cultivated or abandoned areas for fuller utilization of resources for agricultural production will be emphasized.

TABLE 2-9

**DEVELOPMENT ALLOCATION AND EXPENDITURE  
OF PUBLIC SECTOR BY FIVE YEAR PLAN PERIOD  
(\$ million)**

<i>Current Prices</i>					
<i>Plan</i>	<i>Original Allocation</i>	<i>Revised Allocation</i>	<i>Actual Expenditure</i>	<i>Percentage of GNP</i>	<i>GDP Growth Rate</i>
2MP, 1971-75	7,250	11,457	9,901	11.2	12.7
3MP, 1976-80	18,555	37,651	27,804	14.6	19.0
4MP, 1981-85	42,830	80,331	78,643	24.1	7.8
5MP, 1986-90	74,000	64,590	61,850	14.3	8.2
6MP, 1991-95	104,000	—	—	13.0	13.2

  

<i>Constant 1978 Prices</i>					
<i>Plan</i>	<i>Original Allocation</i>	<i>Revised Allocation</i>	<i>Actual Expenditure</i>	<i>Percentage of GNP</i>	<i>GDP Growth Rate</i>
2MP, 1971-75	10,398	16,432	14,200	10.7	6.6
3MP, 1976-80	18,039	36,604	27,031	14.4	8.5
4MP, 1981-85	33,453	62,744	61,426	24.4	5.1
5MP, 1986-90	53,017	46,275	44,312	13.9	6.7
6MP, 1991-95	58,165	—	—	12.3	7.5

2.39 Due to constraints in the availability of new land and the growing depletion of forestry and inshore fishery resources, land and regional development will be given a lower allocation of \$2,383 million compared with \$2,946 million in the Fifth Plan. During the Sixth Plan period, the Federal Land Development Authority (FELDA) will concentrate all its effort on replanting programmes rather than opening up new land. Emphasis will thus be on revitalization and conservation measures as well as productivity improvements through research and development (R&D) and effective farm management that minimize unit costs, reduce losses and increase net yield.

2.40 The allocation for commerce and industry will amount to \$5,752 million or 10.5 per cent of the total Federal Government allocation, mainly to provide infrastructural support to expand and strengthen the industrial and commercial base of the economy. Of this, \$3,187 million will be allocated for industrial development, out of which \$291 million will be for the development of industrial estates. A sum of \$560 million will be allocated for S&T infrastructure, \$534 million for tourism and \$658 million for export promotion, training and consultancy services, business premises as well as for strengthening and modernizing business administration and services. In addition, \$661 million will be provided to financial institutions for programmes such as venture capital, SMIs, and export credits.

2.41 The transport and communications sector will be allocated a sum of \$10,832 million or 19.7 per cent of the total Federal Government allocation, in line with the objective to provide better infrastructure networks to meet the increased demand for infrastructural facilities. Of this allocation \$7,585 million will be for the expansion and upgrading of roads, including a sum of \$1,286 million for rural roads outside the Regional Development Authority areas. In addition, \$1,368 million will be allocated for the Malayan Railway, mainly for the purchase of rolling stocks, construction of double tracking system and modernization of the signalling and communications system. The development and improvement of new and existing airports will amount to \$997 million, of which \$176 million will be allocated for upgrading and improving the Subang International Airport while the development of ports will amount to \$758 million. With the privatization of the Telecommunications Department, no allocation will be provided to expand its facilities. However, a sum of \$73 million will be provided to meet the requirements of the regulatory functions of the Telecommunications Department as well as for the purchase of capital equipment for the Meteorological Department.

2.42 The energy and water resources subsectors will be allocated a sum of \$4,752 million. Priority will be given to the development and improvement of water supply schemes which will be provided a sum of \$2,854 million. This includes an allocation of \$1,048 million for the rural water supply programme which involves the installation of reticulation systems in rural areas. The allocation also includes the construction of dams to conserve water resources as well as meet inter-state and inter-basin water transfers. To further improve the quality of water and the environment, some \$551 million will be allocated for the development of sewerage facilities. A new financing system for sewerage projects is being considered in order to assist local authorities to expand these facilities.

2.43 In the energy sector, the bulk of the proposed development expenditure of PETRONAS and the electricity authorities will be financed from their internal funds. However, the Federal Government will allocate a sum of \$979 million to this sector, of which \$765 million will be for rural electrification. The rural electrification programme will enable the attainment of 100 per cent coverage for Peninsular Malaysia, 73 per cent for Sabah and 77 per cent for Sarawak, by the end of the Plan period. PETRONAS will spend about \$10,800 million for projects in the petroleum and gas sector. Investment allocations for major projects will include \$4,260 million for refinery projects in Melaka, \$1,650 million for the expansion of the LNG plant in Bintulu and \$1,480 million for petrochemical projects. *Tenaga Nasional Berhad* will spend about \$11,000 million during the Sixth Plan, mainly for power generation, transmission and distribution networks.

2.44 R&D activities in the public sector will be further enhanced and integrated in national development. Priority will be given to technology adaptation, innovation and utilization in line with industrial and export requirements. Efforts will be made to reorient research to meet the requirements of the market. Greater emphasis will be accorded to raising the technology content, efficiency and productivity of Malaysian industries and services. Towards this end, an increased allocation of \$600 million will be provided under the Sixth Plan. In line with the Government's aim to at least double the national R&D expenditure as a percentage of GNP by the year 2000 from the current level, incentives such as direct matching grants, soft loans and preferential credit allocations will be provided. The private sector will also be expected to be more aggressive and adopt a more positive attitude towards R&D. Fiscal and financial incentives as well as provision of the techno-infrastructure to stimulate R&D activities in private industry will be instituted.

2.45 An allocation of \$13,468 million or almost a quarter of the total Federal Government allocation will be provided for the social sector in line with the objective to further improve the quality of life and general well-being of the society. Of this amount, education and training programmes will receive \$8,501 million to meet the requirement of human resource development. With the increasing demand for education and training at all levels, measures will continue to be undertaken to rationalize and strengthen the existing education and training delivery system with a view to upgrading the quality, promoting greater equity and accessibility to education and training as well as catering to the needs of developing a competitive national economy. In this respect, efforts will be geared towards maximizing the utilization of existing education and

training facilities, upgrading and improving the school curriculum and teacher training. Emphasis will also be given to vocational and technical training and higher education. Vocational and technical education as well as public sector training institutions will be upgraded to increase the supply of skilled and technical manpower to meet the rapid industrialization of the economy. Continuous efforts will be made to rationalize the higher education system in order to produce the manpower required by industry. In this respect, research and post-graduate programmes in institutions of higher learning will be strengthened in collaboration with industry.

2.46 Programmes for health will be provided with an allocation of \$2,253 million, mainly for the implementation of twelve nucleus hospitals, the upgrading of the rural health services and the construction of the new cardiothoracic centre. The quality of health services will be further improved through wider coverage of pathological and radiology services. With respect to housing, a sum of \$803 million will be allocated, mainly for low-cost housing programmes.

2.47 During the Sixth Plan, a sum of \$109 million will be provided for continuation and new projects for the Judicial services. New high courts will be built in Kuala Terengganu, Melaka and Shah Alam, while 15 new magistrate courts will be built throughout the country. The provision of new court rooms and upgrading of existing facilities are also necessary due to the unprecedented increase in the number of cases to be resolved by the courts. It is envisaged that with the completion of these projects, the present backlog of criminal, civil and remand cases will eventually be reduced.

2.48 The security sector will be allocated a sum of \$8,408 million or 15.3 per cent of the total Federal Government allocation, of which \$6,000 million is for the armed forces. This amount is substantially higher than that allocated for in the Fifth Plan, mainly to meet the commitment under the Memorandum of Understanding signed with the United Kingdom for purchases of military hardwares and construction of related infrastructure. The allocation includes other programmes, such as procurement of equipment amounting to \$678 million and construction of camps and family quarters amounting to \$871 million. An allocation of \$2,408 million will be set aside for internal security of which \$2,131 million will be for the Royal Malaysian Police, including a sum of \$615 million for housing projects for police personnel. The balance will be mainly for programmes to expand the facilities of the Immigration and Prison Departments as well as for Dadah Rehabilitation Programmes.

*Development Allocation for Poverty Eradication  
and Restructuring of Society*

2.49 The Government will continue to implement key programmes for eradicating poverty and restructuring of society in line with the priorities emphasized under NDP. The allocations for further improving the income levels and quality of life of the rural population will continue to be given as reflected in the sectoral allocations. In addition, an amount of \$600 million including \$260 million from the operating expenditure will be allocated for the purpose of further implementing development programmes specifically for the hard-core poor. This will include the provision of \$20 million to *Amanah Ikhtiar Malaysia* to expand its lending activities at zero interest rates to the hard-core poor. Other major components under this programme will include expenditures directed at increasing the accessibility of the poorest households to proper housing, health and education facilities as well as for income-generating activities.

2.50 Continued emphasis will be given to provide the rural population with the necessary facilities to upgrade their education and skills, thereby increasing their access to and participation in modern sector activities. The provision of wider opportunities and improved facilities will thus help reduce the disparity in the quality of education and training between urban and rural areas, and among the different segments of society. The private sector will also be expected to play an important role in training and producing skilled manpower to meet the demand of a changing industrial environment.

2.51 For programmes under the restructuring of society, a total of \$3,000 million will be allocated to support the development of a viable Bumiputera Commercial and Industrial Community. The major components of the allocation include \$1,800 million for education and training as well as entrepreneurial development programmes and \$600 million for development of commercial enterprises and business premises. These funds will be channelled through institutions such as MARA, *Bank Pembangunan Malaysia*, State Economic Development Corporation (SEDCs) and Urban Development Authority (UDA) to assist the Bumiputera community to participate in the modern commercial and industrial sectors of the economy.



### *Development Allocation by State*

2.52 The Federal development allocation by states during the Sixth Plan is shown in *Table 2-4*. The allocations take into account the relative socio-economic position of the states, their development potentials, their comparative resource advantages as well as their implementation capacity.

2.53 Besides Wilayah Persekutuan, Selangor will continue to receive a relatively larger proportion of 7.8 per cent of the Sixth Plan allocation, amounting to \$4,295 million. Among the major projects for Wilayah Persekutuan Kuala Lumpur will be the upgrading and expansion of facilities in *Universiti Malaya* as well as the construction of a teaching hospital in *Universiti Kebangsaan Malaysia* and the National Heart Institute. A large allocation is provided for the development of Labuan as an international off-shore financial centre. The bulk of the allocation for Selangor will be for expanding the facilities in *Universiti Pertanian Malaysia, Universiti Kebangsaan Malaysia, Universiti Islam Antarabangsa* and Subang International Airport. These projects will not only benefit the people of Selangor but also those from other states.

2.54 The middle income States of Johor, Pahang and Perak will collectively receive 16.8 per cent of the total allocation. The other middle income States of Melaka, Negeri Sembilan and Pulau Pinang will receive 7.3 per cent of the total allocation. The comparatively higher proportion of allocation given to Johor, Pahang and Perak will be for major agricultural and infrastructural development projects such as IADPs Johor Barat Phase II and Pahang Barat and the construction of Kuala Kangsar-Grik and Ipoh-Lumut roads.

2.55 The lesser developed States of Perlis, Kedah and Kelantan will be allocated \$5,395 million or 9.8 per cent of the Sixth Plan allocation. Major projects include the completion of the *Universiti Utara Malaysia* campus, the implementation of IADPs Lembah Kedah and Kemasin-Semerak and the flood mitigation project in Kelantan.

2.56 Sabah and Sarawak together will receive \$5,516 million or 10 per cent of the total Federal development allocation. A large proportion of this will be for the implementation of the necessary infrastructural projects to enhance accessibility to social services and further develop the economy of these states. These projects include the Beaufort-Sindumin road, Sandakan-Lahat Datu and the Tamparuli-Ranau highway in Sabah and the Kuching-Sibu road, the Kuching-Bau-Lundu road, and the new Penrissen-Batu Kawa-Petra Jaya road in Sarawak.

### *Current Expenditure*

2.57 The current expenditure of the Federal Government for the Sixth Plan period is expected to increase by 7.2 per cent per annum, as shown in *Table 2-5*. This is on account of the growing expenditure for emoluments, pension and gratuities as well as supplies and services. The expenditure on supplies and services is projected to increase by 12 per cent per annum compared with 2.6 per cent in the previous Plan. The increase is to meet increasing operational and maintenance requirements as a result of the expansion in physical and social infrastructures undertaken by the public sector as well as to raise operational efficiency of government departments.

### *Sources of Revenue*

2.58 In view of a steady deterioration in tax buoyancy experienced over the years to below 1.0 for virtually all categories of taxes during the Fifth Plan period, greater efforts will be undertaken to mobilize additional revenue. In addition to further improvements to tax collection efforts, an appraisal of the tax and incentive system will be undertaken with a view to increasing revenue and reducing the erosion of the tax base by the provision of incentives. Total revenue of the Federal Government is anticipated to increase by 7.0 per cent per annum during the Sixth Plan period, which is higher than that in the Fifth Plan, as shown in *Table 2-6*. The share of tax revenue to total revenue is projected to increase from 73.1 per cent in 1990 to about 76 per cent in 1995. In contrast, the slower growth of *non-tax revenue* will result in its share declining from 26.9 per cent to about 24 per cent during the same period.

2.59 Revenue from *direct taxes* is expected to grow moderately by 6.0 per cent per annum while its share will decline from 35.8 per cent of total revenue in 1990 to 34 per cent in 1995. The projected increase will largely originate from company income taxes, consistent with the rapid growth of the economy. At the same time, income tax payments from individuals are expected to grow moderately by 6.7 per cent per annum. Revenue from *indirect taxes* will continue to increase, reflecting further improvements in tax collections and administration, particularly from consumption-based taxes due to increasing consumption of domestically produced goods and services. Revenue from this source is expected to increase by 9.4 per cent per annum during the Sixth Plan period compared with 7.8 per cent per annum during the previous Plan, further

increasing its share to 41.6 per cent in 1995 from 37.3 per cent in 1990. Income derived from divestment as a result of the privatization of Government agencies is expected to be substantial. The contribution of petroleum tax and non-tax revenue to total revenue is expected to decline as petroleum production is expected to stagnate at current levels. However, it will still continue to account for about a quarter of the total revenue of the Federal Government.

### *Sources of Financing*

2.60 The financing of development expenditure will rely less on foreign borrowing and more on the surplus from the current account and from domestic borrowing. The current surplus of the Federal Government is projected to be about \$7,860 million during the Sixth Plan period. However, given the Federal Government development expenditure at \$55,000 million, the overall deficit will amount to \$44,640 million, as shown in *Table 2-5*. While this level will remain high, the overall Federal deficit as a percentage of GNP will be reduced from 6.5 per cent during the Fifth Plan period to 5.5 per cent in the Sixth Plan. Although the deficit can be financed from domestic borrowing, the Government will continue to raise external loans, especially project loans, from foreign multilateral institutions and bilateral sources whenever necessary and on favourable and attractive terms.

2.61 With the continued efforts of the Government to improve the efficiency of NFPEs, their operating surplus is expected to amount to \$28,900 million in the Sixth Plan period compared with \$20,796 million in the previous Plan. PETRONAS, *Tenaga Nasional Berhad* and *Telekom Malaysia Berhad* will continue to account for the major surpluses of NFPEs. Their surpluses remain as part of the public sector resources and as such they are still significant in terms of providing financing for the public sector programmes.

2.62 Taking into account the current surpluses of the Federal, state, statutory authorities and local governments as well as NFPEs, the overall public sector current surplus is projected to amount to \$71,810 million, almost double that in the previous Plan period, as shown in *Table 2-7*. The substantial increase is on account of the higher surplus of NFPEs. With a development allocation of \$104,000 million for the public sector, its overall deficit will increase to \$32,190 million in the Sixth Plan period compared with \$18,117 million in the Fifth Plan. In terms of percentage of GNP, the ratio is expected to decline from 4.2 per cent to 4.0 per cent during the same period.

### *Privatization*

2.63 While considerable progress has been made in the implementation of the privatization programme, the Government will accelerate further the pace of privatization during the Sixth Plan. Towards this objective, a Privatization Master Plan has been prepared to provide guidelines for the orderly and more effective implementation of the policy. On the basis of this Master Plan, the Government will formulate a series of short-term Privatization Action Plans, detailing the entities to be privatized and which will be made available to the public. Another important aspect that will be given attention will be the strengthening of the regulatory framework to govern the privatized entities, especially those having monopolistic position. A study has been commissioned to help the Government in establishing an appropriate regulatory framework to ensure that public interest will be protected in terms of price and quality as well as efficiency and availability of services.

2.64 The acceleration of the privatization programme will place new demand on the equity and debt market. In order to avoid the crowding-out of the private sector for funds for other purposes, a number of capital market reforms are being considered to further promote investment particularly by small shareholders, employees and the Bumiputera. These reforms will not only cater to the needs of the privatization programme but simultaneously promote further the development of the domestic capital market.

### *Technical Assistance*

2.65 The technical assistance programme will continue to focus on human resource development which includes not only the acquisition of technical experts to meet the shortage of manpower for undertaking specialized functions or tasks but also to enhance the Government's institutional capability through training and transfer of technology to local personnel. Efforts will, therefore, be taken to secure technical assistance from all possible sources through the matching of Malaysia's needs with the capacities of the donor countries. At the same time, Malaysia's technical assistance to other developing countries through MTCP will be continued to promote regional and South-South cooperation. The thrust of MTCP will also focus on human resource development. The Programme is expected to expand its coverage to include other developing countries in Latin America.

#### **IV. CONCLUSION**

2.66 Public sector development expenditure will complement the leading role to be played by the private sector. It will focus on the implementation of existing and new programmes and projects to achieve the growth and distributional objectives of NDP. Programmes and projects aimed at improving the physical and social infrastructures as well as the enhancement of technology and human resource development will be given greater emphasis. Although resources will not be a major constraint in the Sixth Plan, the Government will continue to be prudent in its financial management.