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## SECTION 6

# Consolidated Public Sector

## Consolidated Public Sector

Malaysia's consolidated public sector (CPS) consists of general government units and non-financial public corporations (NFPCs). The purpose of reporting CPS financial position is to estimate the overall size of the public sector, measure the impact of its activities on the economy and identify the sources of fiscal risks. The CPS framework requires all intra-transfers and net lending to be netted off from each public sector unit to represent its financial position as a consolidated entity.

The assessment of the financial performance of the general government differs from the assessment of NFPCs. As a social-oriented unit, general government balance tend to

incur deficit due to sizeable development expenditure (DE), reflecting significant capital investments to yield long-term social and economic benefits. In contrast, NFPCs' deficit reflects capital expenditure that is commercial in nature for income generation.

In 2021, the CPS current surplus is anticipated to rise to RM61.8 billion (2020: RM55.9 billion), mainly due to higher Federal Government revenue. In addition, the consolidated DE of the public sector is expected to rise by 19.3% to RM140.1 billion (2020: RM117.5 billion), in line with higher investments to revive economic activities, particularly by the Federal Government and NFPCs. After taking into account the COVID-19 Fund expenditure and netting off intra-transactions between units, the overall deficit of the public sector is anticipated to rise to RM117.4 billion or 7.7% to GDP in 2021 (2020: RM99.5 billion; 7%).

**TABLE 6.1.** Consolidated Public Sector Financial Position, 2020 - 2022

	RM MILLION			CHANGE (%)		
	2020	2021 <sup>2</sup>	2022 <sup>3</sup>	2020	2021 <sup>2</sup>	2022 <sup>3</sup>
Revenue	248,349	254,334	257,268	-1.7	2.4	1.2
Operating expenditure	263,556	258,830	271,947	-11.6	-1.8	5.1
Current balance	-15,207	-4,496	-14,679	-66.6	-70.4	226.5
NFPCs current surplus	71,152	66,260	87,969	-44.6	-6.9	32.8
<b>Public sector current balance</b>	<b>55,945</b>	<b>61,764</b>	<b>73,290</b>			
Development expenditure	117,460	140,095	155,478	-12.6	19.3	11.0
General government	55,621	66,158	80,766	-4.0	18.9	22.1
NFPCs	61,839	73,937	74,712	-19.2	19.6	1.0
COVID-19 Fund <sup>1</sup>	37,980	39,039	23,000		2.8	-41.1
<b>Overall balance</b>	<b>-99,495</b>	<b>-117,370</b>	<b>-105,188</b>			
<b>% to GDP</b>	<b>-7.0</b>	<b>-7.7</b>	<b>-6.4</b>			

<sup>1</sup> 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

<sup>2</sup> Revised estimate

<sup>3</sup> Budget estimate, excluding 2022 Budget measures

Source: Ministry of Finance, Malaysia

## INFORMATION BOX

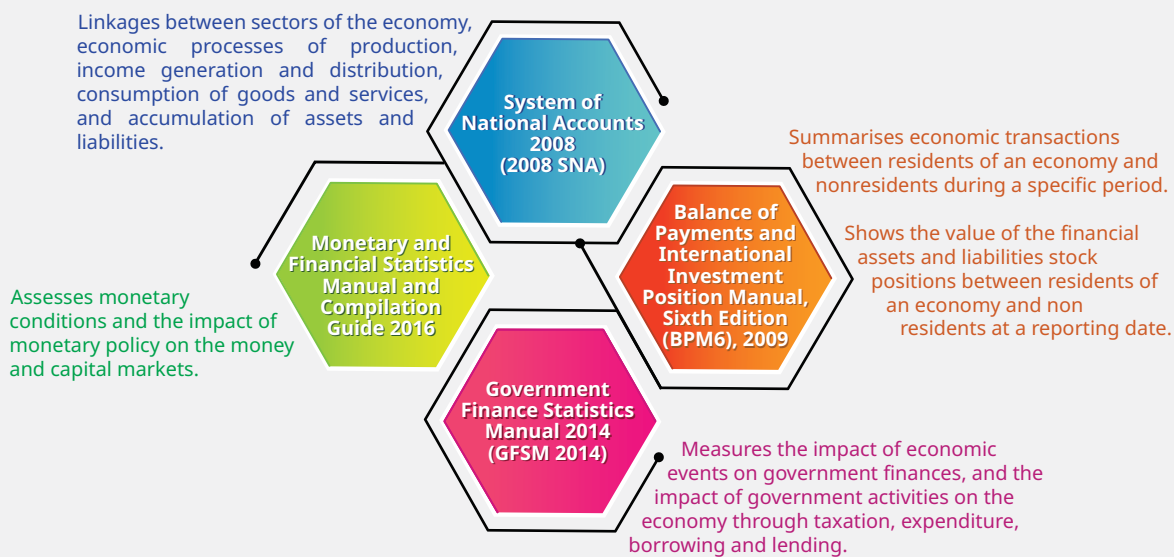
## Government Finance Statistics

## Introduction

As the custodian of member countries' fiscal statistics, the International Monetary Fund (IMF) has published the Government Finance Statistics Manual 2014 (GFSM 2014). Based on the accrual accounting standard, their methodology provides internationally comparable financial data to support fiscal analyses. This include, for example, taxes proportion to total revenue when assessing revenue sustainability or social assistance benefits when measuring fiscal injections into the economy during a crisis. More importantly, GFSM 2014 facilitates countries to monitor and evaluate the impact of fiscal policies on the economy as well as crafting effective policy responses.

GFSM 2014 is harmonised with other international statistical manuals in aligning the basic concepts, classifications, and definitions to ensure consistency between macroeconomic and fiscal data. Compared to the previous edition, GFSM 2014 also improves on comprehensiveness of data presentation. In view of the importance of aligning to the guideline, the Malaysian Government is in the process of adopting GFSM 2014 through the implementation of accrual accounting to enhance the quality of public sector financial reporting.

**FIGURE 1.** Government Finance Statistic Manual 2014 and Other Related Macroeconomic Statistical System



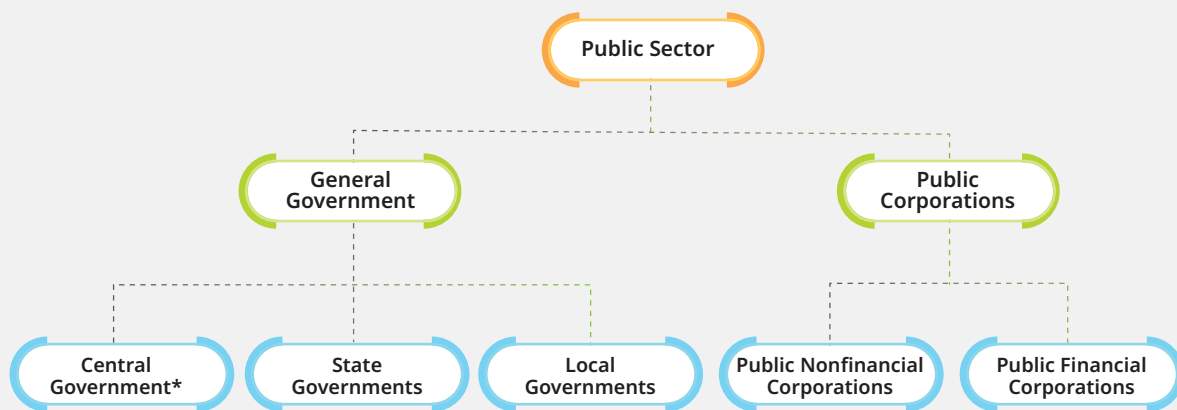
Note: For consistency of debt-related issues, GFSM 2014 is also supplemented with the Public Sector Debt Statistics: A Guide for Compilers and Users (PSDS Guide) and the External Debt Statistics: Guide for Compilers and Users 2013 (2013 EDS Guide)

Source: GFSM 2014, IMF

### Coverage of Government Finance Statistics

Government finance statistics reporting covers the public sector, comprising all units of the general government and public corporations. This comprehensive coverage enables a government to identify fiscal risks associated with all public sector entities. The capability of identifying the risks may assist policymakers in managing internal and external shocks to the economy. While general government data is important for international assessments of government financial performance, interest in public corporations is also growing.

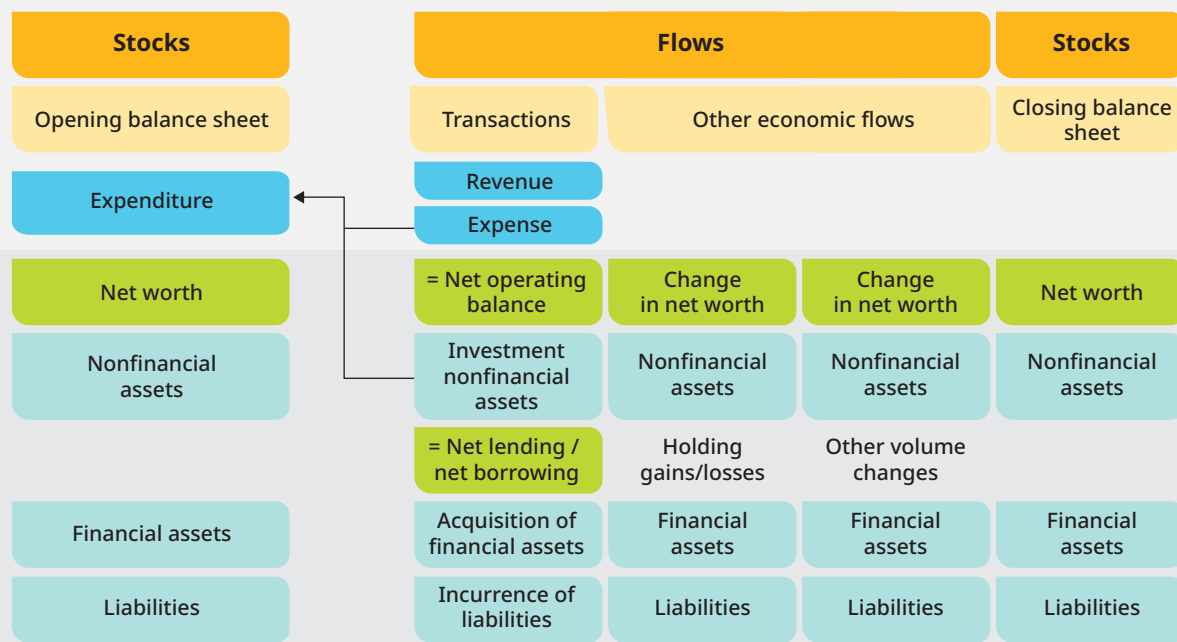
**FIGURE 2. Main Components of The Public Sector**



Note: \*Central government consists of budgetary central government (BCG) and extrabudgetary funds. In the context of Malaysia, BCG is the Federal Government while extrabudgetary funds are Federal Statutory Bodies.

Source: Government Finance Statistics Manual 2014, IMF

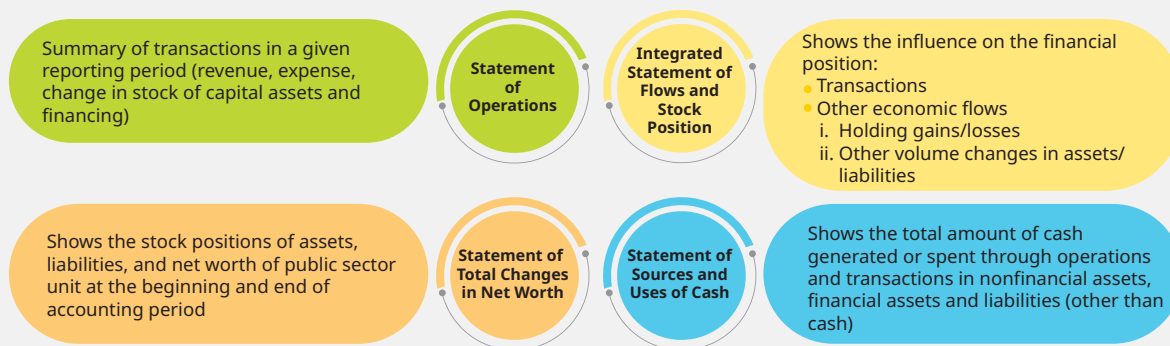
**FIGURE 3. Government Finance Statistics Manual 2014 Analytic Framework**



Source: GFSM 2014, IMF

GFSM 2014 framework underlines the integrated balance sheet approach by incorporating all flows and stock positions on an accrual basis while maintaining cash-flow data to evaluate the liquidity of a government. The framework summarises the overall performance and financial position of the general government or the public sector using balancing items measured within the framework, such as the net operating balance, net lending/net borrowing, and the change in net worth. GFSM 2014 reporting also produces core statements, as shown in Figure 4.

**FIGURE 4.** *Government Finance Statistics Manual 2014 Core Statements*






Source: GFSM 2014, IMF




### Update on the Adoption of GFSM 2014 in Malaysia

GFSM 2014 implementation in Malaysia is a collaboration mainly between the Ministry of Finance (MOF) and Accountant General's Department of Malaysia (AG), supported by the Economic Planning Unit, Department of Statistics of Malaysia and Bank Negara Malaysia. The Government has received three series of technical assistance from the IMF, funded by the Government of Japan through Japan International Cooperation Agency, to assist migration efforts from GFSM 1986 (cash basis) to GFSM 2014 (accrual basis). The most recent technical assistance was held virtually in early 2021, where efforts were focused on synchronising AG's accrual accounting codes for Federal Government to GFSM 2014 codes and improving data reporting for other public sector units.

Currently, the MOF submits annual fiscal data on a cash basis at budgetary central government (BCG) level for GFSM 2014 data submission, while the progress of other public sector units for the reporting is shown in Table 1.

**TABLE 1.** Status for Government Finance Statistics Manual 2014 Reporting: Malaysia

INSTITUTIONAL SECTORS			
Budgetary central government (BCG) – Federal Government	<ul style="list-style-type: none"> <li>• Official GFSM 2014 submission based on cash data</li> <li>• Development of Chart of Accounts to map AG accrual accounting codes to GFSM 2014 codes</li> <li>• Development of BCG data compilation sheet for GFSM 2014 reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Statistical discrepancy checking of BCG data for GFSM 2014 reporting, simulated using Federal Government's 2018 accrual data</li> </ul>	<ul style="list-style-type: none"> <li>• Official GFSM 2014 submission based on accrual data</li> </ul>
Extrabudgetary funds – Federal Statutory Bodies	<ul style="list-style-type: none"> <li>• Redesign, restructure and adopt new data collection template to align with GFSM 2014 classification</li> </ul>	<ul style="list-style-type: none"> <li>• Refinement of data collection template</li> <li>• Checking of consolidated data for statistical discrepancy</li> </ul>	<ul style="list-style-type: none"> <li>• Revision of Federal Statutory Bodies' coverage to be more comprehensive</li> </ul>
State governments			<ul style="list-style-type: none"> <li>• Engagement with state governments to improve data collection as per GFSM 2014 requirements</li> </ul>
Local governments	<ul style="list-style-type: none"> <li>• Redesign, restructure and adopt new data collection template to align with GFSM 2014 classification</li> <li>• Comprehensive coverage of local governments</li> </ul>	<ul style="list-style-type: none"> <li>• Refinement of data collection template</li> <li>• Checking of consolidated data for statistical discrepancy</li> </ul>	

 Completed
  In progress
  Action required

Source: Ministry of Finance, Malaysia and Tillmann-Zorn, H. (2021). Report on The Government Finance Statistics Technical Assistance Mission (February 1 – March 31, 2021), IMF

Currently, Malaysia reports GFSM 2014 data at the BCG level based on Federal Government cash data. Likewise, state governments are also adopting cash accounting, while Federal Statutory Bodies, local governments and public corporations have adopted accrual-based reporting. The implementation of accrual accounting at the Federal Government level will expedite the progress of GFSM 2014 reporting. Moving forward, accrual accounting-related Acts are expected to be tabled in Parliament by the end of 2021, followed by the publication of the Federal Government's accrual financial statements by the AG.

Depending on the availability and readiness of resources, countries have different timelines for implementing GFSM 2014, as shown in Table 2. In supporting the full implementation of the framework, important aspects for consideration include converting the existing cash-based to accrual-based accounting system, adopting the GFSM 2014 classification structure for all economic flows, and improving the data availability of the balance sheet.

**TABLE 2.** ASEAN Countries' Reporting for Government Finance Statistics Manual 2014

	COUNTRIES	BUDGETARY CENTRAL GOVERNMENT (BCG)	CENTRAL GOVERNMENT	GENERAL GOVERNMENT
1	Brunei	NA	NA	NA
2	Cambodia	/	/	NA
3	Indonesia	NA	/	/
4	Lao PDR	/	NA	NA
5	Malaysia	/*	NA	NA
6	Myanmar	/	/	/
7	Philippines	/	NA	NA
8	Singapore	/	/	/
9	Thailand	/	/	/
10	Viet Nam	NA	NA	NA

Note: \*Submission is based on cash data since Malaysia is in the pre-transition period of implementing accrual accounting for BCG level (Federal Government)  
NA: Not Available

Source: IMF Data - Government Finance Statistics, IMF

## Conclusion

Overall, GFSM 2014 provides an inclusive and analytical framework towards enhancing transparency and improving public sector financial reporting. Events such as episodes of economic and financial crises, which have resulted in rising fiscal deficits and debt levels, highlight the importance of comparable, reliable and timely financial statistics for early risk detection and formulation of appropriate prevention measures. GFSM 2014 reporting is essential for fiscal analysis and plays an important role in sound fiscal management and economic policies.

Implementation of accrual accounting benefits public sector financial reporting in terms of full compliance with GFSM 2014. Thus, detailed information obtained from GFSM 2014 reporting allows policymakers to effectively analyse and make decisions for sustainable policies for economic development. Furthermore, it will support the enactment of the Fiscal Responsibility Act, which aims to strengthen fiscal institutions through better governance, accountability and transparency based on international best practices.

## References

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- Tillmann-Zorn, H. (2019). Report on The Government Finance Statistics Technical Assistance Mission and Preceding Remote Support (March 4-8, 2019). International Monetary Fund.
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- International Federation of Accountants. (2021). Public Sector Financial Accountability Index – 2020 Financial Reporting Basis. Retrieved from <https://www.ifac.org/what-we-do/global-impact-map/accountability>



## General Government

The general government sector in Malaysia comprises the Federal Government, state governments, local governments and Federal Statutory Bodies<sup>1</sup> that undertake principal economic functions of the government. The functions include providing non-commercial public goods and services, ensuring income and wealth redistribution, and financing activities primarily through taxation or transfers. The purpose of reporting the general government's financial position is to evaluate its performance and the overall impact of government operations on the economy.

The consolidated general government revenue is expected to decline by 3.3% to RM282.9 billion in 2021, particularly due to the lower revenue of the Federal Government and Federal Statutory Bodies. Similarly, the consolidated operating expenditure (OE) is estimated to be lower by 1.8% at RM259.3 billion, mainly attributed to the expenditure rationalisation by the Federal Government.

With revenue declining at a faster pace than OE, the general government's current surplus is expected to fall to RM23.5 billion (2020: RM28.3 billion). In contrast, the consolidated DE is projected to rise by 22.3% to RM68.5 billion, mainly due to higher Federal Government DE. With the Federal Government's additional spending from the COVID-19 Fund, total expenditure is expected to increase to RM366.8 billion (2020: RM358.1 billion). Consequently, after netting off intra-transfers and net lending, the general government's overall deficit is expected to increase to RM84 billion or 5.5% to GDP in 2021 (2020: RM65.6 billion; 4.6%).

The general government's overall deficit is primarily financed by Federal Government borrowings and accumulated reserves. All state governments<sup>2</sup> and Federal Statutory Bodies may borrow only from or with the approval of the Federal Government, while local governments<sup>3</sup> may borrow with the consent of the respective state governments. Thus, the credit risk exposure of the general government is contained at the Federal Government level.

**TABLE 6.2.** Consolidated General Government Financial Position, 2020 – 2022

	RM MILLION			CHANGE (%)		
	2020	2021 <sup>2</sup>	2022 <sup>3</sup>	2020	2021 <sup>2</sup>	2022 <sup>3</sup>
Revenue	292,427	282,859	294,347	-10.4	-3.3	4.1
Operating expenditure	264,090	259,316	272,317	-11.5	-1.8	5.0
<b>Current balance</b>	<b>28,337</b>	<b>23,543</b>	<b>22,030</b>			
Development expenditure	55,987	68,464	82,052	-3.7	22.3	19.8
COVID-19 Fund <sup>1</sup>	37,980	39,039	23,000		2.8	-41.1
<b>Overall balance</b>	<b>-65,630</b>	<b>-83,960</b>	<b>-83,022</b>			
<b>% to GDP</b>	<b>-4.6</b>	<b>-5.5</b>	<b>-5.1</b>			

<sup>1</sup> 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

<sup>2</sup> Revised estimate

<sup>3</sup> Budget estimate, excluding 2022 Budget measures  
Source: Ministry of Finance, Malaysia

<sup>1</sup> Federal Statutory Bodies are governed by Federal ministries and are subjected to respective acts to carry out specific Government functions in various sectors, including education, health and agriculture. Revenues comprise mainly grants from the Federal Government.

<sup>2</sup> Articles 111 and 112 of the Federal Constitution (except Sabah and Sarawak, which are allowed to borrow, upon the approval by the Central Bank).

<sup>3</sup> Section 41 and 42 of the Local Government Act 1976.

## State Governments

The state governments' consolidated revenue in 2021 is estimated to increase by 3% to RM35.4 billion or 2.3% to GDP, of which RM28.7 billion or 81.1% is from state-generated revenue (2020: RM27 billion; 78.5%), while the balance is from Federal Government transfers and grants. The main sources of their revenue are sales tax, petroleum royalties, investment income, land premiums and land taxes. In terms of state-generated revenue, Sarawak, Sabah, Selangor, Terengganu and Johor are the main contributors, accounting for 85.5% or RM24.5 billion.

Tax revenue is estimated at RM9.5 billion or 26.7% of the total consolidated revenue. Direct tax collection is projected at RM3.5 billion, mainly tax on natural resources such as land, mines and forestry. Indirect tax is expected to record RM6 billion or 63.3% of tax revenue, mainly attributed to sales tax<sup>4</sup> on petroleum products amounting to RM4.2 billion.

Non-tax revenue is expected to register RM12.6 billion or 35.6% of the total consolidated revenue. The main components are petroleum royalties (RM3.7 billion), investment income (RM3.2 billion) and land premiums (RM2.1 billion). Non-revenue receipts of RM13.3 billion comprise mainly grants from the Federal Government. The grants include Capitation Grants, which is based on annual population projection, operating grants under the Concurrent List of the Federal Constitution and service charges for the involvement of states' employees in Federal development projects.

The consolidated state government OE is projected to increase by 8.7% to RM15.2 billion (2020: 13.2%; RM14 billion) mainly due to higher supplies and services as well as emoluments. Similarly, consolidated DE is expected to increase by 22.6% to RM12 billion (2020: -11.5%; RM9.8 billion). For the year, major development projects undertaken include developing rural areas in Sarawak, agriculture programmes and projects in Sabah, construction and upgrading

roads in Selangor, and implementing water supply projects in Pahang and Kedah. Hence, the consolidated total expenditure of state governments is forecast to be higher by 14.4% to RM27.2 billion.

Overall, the consolidated state governments' current balance is estimated at RM20.2 billion or 57% of total consolidated revenue. The state governments' overall balance is also estimated to register a surplus of RM8.7 billion.

**TABLE 6.3.** Consolidated State Governments' Financial Position, 2020 - 2021

	RM MILLION		CHANGE (%)	
	2020	2021 <sup>1</sup>	2020	2021 <sup>1</sup>
Revenue	34,414	35,435	2.1	3.0
Operating expenditure	14,003	15,221	13.2	8.7
<b>Current balance</b>	<b>20,411</b>	<b>20,214</b>		
Gross development expenditure	9,782	11,996	-11.5	22.6
Development Fund	9,774	11,832	-11.3	21.1
Water Supply Fund	8	164	-78.4	1950.0
Less: Loan recovery	666	476	-11.5	-28.5
Net development expenditure	9,116	11,520	-11.5	26.4
<b>Overall balance</b>	<b>11,295</b>	<b>8,694</b>		
<b>% to GDP</b>	<b>0.8</b>	<b>0.6</b>		

<sup>1</sup> Estimate  
Source: Ministry of Finance, Malaysia

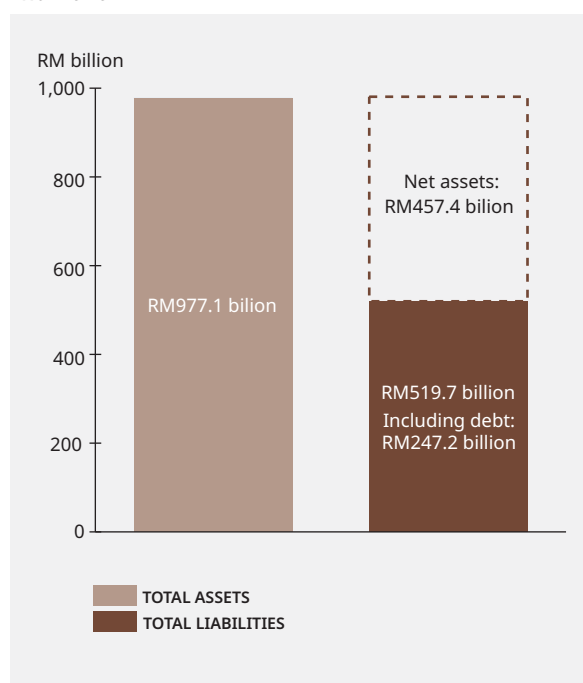
## Non-Financial Public Corporations

The inevitable economic downturn has forced many economic sectors to adapt quickly to survive the crisis, particularly from the impact of the movement control restrictions to curb the spread of the pandemic. While

<sup>4</sup> Sales tax in Sabah and Sarawak is under the jurisdiction of the respective states and is one of the main sources of revenue for the states as stipulated in the Federal Constitution, Tenth Schedule, Part V, Additional Sources of Revenue Assigned to States of Sabah and Sarawak.

continuing to operate, the non-financial public corporations (NFPCs) are also adapting to the new normal and better prepared to face future disruptions. As at end-2020, the consolidated net assets of NFPCs were lower at RM457.4 billion (2019: RM515.1 billion) due to high impairment. Nevertheless, the availability of quality assets and robust revenue streams enable the NFPCs to finance their investments through retained earnings and borrowings.

**FIGURE 6.1.** NFPCs' Assets and Liabilities, End-2020



Source: Ministry of Finance, Malaysia

With some countries and sectors recovering faster than others, the NFPCs' consolidated financial position is expected to record a modest current surplus of RM40.5 billion in 2021 (2020: RM28 billion), compared to the pre-crisis level averaging RM60 billion. Nevertheless, the global economic, regulatory, and political dynamics require NFPCs to incur a significant capital expenditure of RM73.9 billion. Hence, the overall deficit for 2021 is projected to slightly improve at RM33.4 billion (2020: RM33.9 billion) or 2.2% to GDP.

Most economic sectors continue to grow at a slower pace due to Movement Control Order (MCO). However, the telecommunication, healthcare and energy subsectors are expected

to record better performance as providers of essential services during the pandemic. Meanwhile, the pandemic has led companies, in particular, in the transportation and utility subsectors to reformulate their business strategies through digitalisation. Consequently, NFPCs' revenue is projected to register a slower growth of 4.4% to RM310.2 billion or 20.5% to GDP as most NFPCs' business portfolio is not under telecommunications, healthcare, and energy subsectors.

The NFPCs' total expenditure for 2021 is estimated to increase to RM343.6 billion (2020: RM331 billion) or 22.7% to GDP in line with business expansion and investment requirements. Of the total, current expenditure is expected to account for 78.5%, while the balance is for capital expenditure. Given the Government's policy to support the economy and gradually relax the MCO through the National Recovery Plan, NFPCs will continue their investment activities. Among the ongoing projects include the Mass Rapid Transit Putrajaya Line and Light Rail Transit Line 3. However, the MCO affects other projects such as the construction of the gas development project in Sabah and Sarawak, hydropower development, and digitalisation infrastructure. With further widening of vaccination program coverage and the gradual reopening of the economy, NFPCs are expected to normalise their operations and improve their financial performance in 2022.

**TABLE 6.4.** Consolidated Non-Financial Public Corporations' Financial Position, 2020 – 2021

	RM MILLION		CHANGE (%)	
	2020	2021 <sup>2</sup>	2020	2021 <sup>2</sup>
Revenue	297,146	310,154	-22.8	4.4
Current expenditure	269,172	269,627	-18.4	0.2
<b>Current balance</b>	<b>27,974</b>	<b>40,527</b>		
Capital expenditure	61,839	73,937	-19.2	19.6
<b>Overall balance</b>	<b>-33,865</b>	<b>-33,410</b>		
<b>% to GDP</b>	<b>-2.4</b>	<b>-2.2</b>		

<sup>1</sup> Refers to 26 major NFPCs

<sup>2</sup> Estimate

Source: Ministry of Finance, Malaysia

