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Budget 2019
Trends Analysis

The Malaysian 2019 Federal Government Budget is scheduled to be announced in thirty days in the Parliament on 2nd November 2018. The first one by Pakatan Harapan (PH) government, which will be tabled the Finance Minister, Lim Guan Eng (LGE). This short note is to discuss what we could potentially see in the Budget 2019, and it's relations to PH's promises and the realities as we know them at the current moment. We would like to do this as an outsider, whereby we have no privileged knowledge, rely solely on publicly available information, and with some objectivity in mind.

OUR APPROACH

The Federal Government budget is required by law to be tabled to the Parliament (and approved) as an annual affair. It is the avenue through which a ruling government plays its role as the "State" within an economic process of the country. Every year, since many years past, main focus of most analysis of the Budget had been on *"Year on Year" (YoY)* basis. We rarely saw in-depth analysis performed on the trends. Year on Year analysis is good to observe immediate changes, but it lacks the view of *the trends*, which is in our opinion, the most critical way of developing a proper and comprehensive understanding of the Budget process and its impacts on the economy.

Why trends analysis is important? Using trends, we could detect changes that occurred during any economic regimes (or ruling regimes), whether any significant changes happened (i.e. the effects) and it would lead us to find answers to the questions of why and due to what (i.e. the causes). This is termed as "*causality analysis*" - which is to develop a proper understanding of "*causes*" and "*effects*". YoY methods generally tends to focus on the (immediate) effects and lacks the views on the causes, which could be analyzed mainly by observing longer-term trends.

Trends analysis is part of a wider approach called Systems Thinking. Systems Thinking requires the understanding of "processes", which is either consciously or subconsciously imbued to the systems, that resulted in certain observable trends. By observing the trends, we could deduce whether they produce some systemic effects - which could be good, neutral, or bad for the overall system. Since Budget process is a major decision-making process, which is a rather complex process since it involves many stakeholders, involved many levels of decision making before it could be finalized, implemented at many levels of execution process, causes reactions by the markets (financial as well as non-financial), and finally it will give direct impacts on the electorate (perceptions as well as their well beings). An absence of systems thinking in the process could lead us to many false positives and false negatives.

Another important focus of trends analysis is to study any build-ups of certain negative elements, which could be unnoticeable over time and finally may end up in some blow-ups. Much financial crisis exhibits such process, such as the Sub-Prime crisis, Forex crisis, and other crisis, whereby certain trends took years to "silently" built-up, until out of the sudden, market crashes occur. Crashes and crisis happened because certain trends developed gradually until it becomes unsustainable, and finally resulted in panic and crashes, which produced devastating results for the public.

As of the date, we have not seen similar approaches to what we are doing here, hence it is our call that in view of today's environment, the importance of our approach should be encouraged to provide basis of arguments and debates, for the benefit of the present and the future. This is line with the calls made by many economists and social scientists for the applications of systems thinking to "Complex Adaptive Systems"; a country's budgetary process is one such complex adaptive systems. With the availability of tools and a large number of time-series and contemporaneous data, comprehensive analysis based on systems thinking is now a definite possibility.

We view that if the proposed approach is taken, debates and arguments will be better founded, rather than left to be of partisan's approach across party lines, and furthermore, it would encourage discussions into a much more matured and informed levels. This is also to promote discussions which are beyond academics and to spur wider thinking process, towards consensus building in our country. Furthermore, if any negative trends persist, it is important to highlight them as early warning, so that we are always on the lookout for any major disruptions that have a high probability to occur.

Economics, in our view, should no longer be the domain of political process, but rather, a process that continues, regardless of the change of regimes in government, and most importantly, it should a subject of decision making by the wider population at large. Building such foundations should be the main order of the day as well as the orders for the future.

In order to assist our discussions, we would like to divide the period of economic development in Malaysia into two phases: Phase I, 1990 to 2010 (we called it "1990s to 2000s"); Phase II, 2011-today (we called the recent phase). These Phases are by no mean to be rigidly followed. It is only to help us organize the discussions intractable manner.

Our analysis begins with the questions of what trends do we want to look at? And then we ask: why such trends exist or persist? Then we will look at what are the effects of such trends on the process. We have to qualify here that in this paper, our intention is only to bring forth our arguments, to highlights visible and clear trends, and only hypothesize or suggest the reasons as well as the effects. A much thorough and complete analysis requires more data (which is not available to us at the current time), and more sophisticated tools (which will be applied to the data, when available). Therefore, we have to admit that due to such limitations, some of our views may be slightly off the mark or inaccurate.

BUDGET PROCESS

There is two general school of thoughts about the government fiscal policies, in particular, the roles of the government budget, in regards to the general economic performance of the country, as opposed to the roles of the private sector (or the markets). The prominent school of thought carried by countries such as the United States is - the markets is the one dominating the economic performance, while the government is providing the "slacks" and abberate any deviations from the general intended path of the economic growth - which we could label as "small government" approach; the other thought is to call for "larger government", where the government plays major and significant roles in determining the country's economic growth. The main tools available to any governments in playing its roles are through "foreign policies", "social policies", "political policies" and "economic policies" as the broad layer. The second (albeit more hidden) layer is the "market policies", "monetary policies", and "fiscal policies". Policies are generally intertwined and feedback into each other, therefore fiscal policies (hence budget process) must be viewed within a larger process (broader policies), and not as a stand-alone process (as a yearly Parliamentary exercise). Budgets are in the sub-domain of fiscal policies, which has its own distinct focus and targets, as well as exercised within its own constraints.

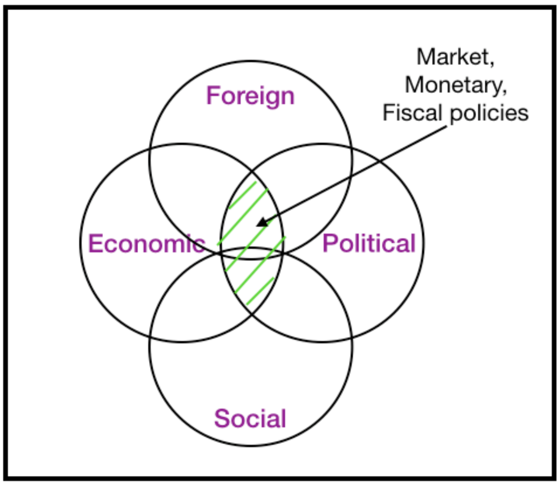

Figure 1: Position of fiscsal policies within government policies

Budgets are a result of two major related process - the source of funding and the expenditures. Source of funding comes from the Revenues (which includes tax and non-tax revenues) and Capital Funding (which are investments and debts). On the other hand, expenditures are categorized into “Operational Expenditures” and “Development Expenditures”. The general approach of the budget process is to match the “Revenues” with “Operational Expenditures” and “Capital Funding” with “Development Expenditures”. The net result of these matchings will produce either a surplus or deficit, which will be gauged as a percentage against the GDP (which is the measure of the general economic performance of the country).

The Malaysian budget process is always lagged by two years - which means that 2019 Budget is to confirm the Budget of 2017 (which was passed two years ago), to provide estimates of the Budget of 2018 (which was passed a year ago), and to pass the plan proposed in the Budget 2019. In another word, the process looks at the past two years trends, to forecast the coming year plan.

FOCUS OF ANALYSIS

We view that Budget as a process which influenced and shaped long-term trends within the social, economic and political landscape of Malaysia. We also view that, in the recent past, under BN/UMNO regime, the focus had been rather myopic and tends to serve shorter-term gains (which is easier to achieve), rather than looking at longer-term effects (which is harder to control). We wish to highlight that, as the country had grown to where we are today, it is pertinent that discussions on short-term gain versus long-term benefits must be reviewed.

For the purpose of our analysis, we plan to focus on the following questions:

1. What are the visible long-term negative trends that require attention (negative build-ups)?
2. What are the short-term tendencies, which tends to feed to such longer-term negative trends?
3. What are the "mismatches" that grew over the years? Are these mismatches sustainable in the short-term as well as in the long-term?
4. Given the new government's manifesto, we would like to ask whether the promises made are sustainable (as opposed to achievable) and whether they would further feed to these negative trends or reverse them?

The data used for the analysis is available in the Appendix.

ANALYSIS OF TRENDS

We will analyze some visible trends on both sides: Revenue & Source of Funds side, and Expenditure side.

A. Revenue and Source of Funds

1. The Revenue growth is not in balance with the economic growth.

	Phase I: 1990s & 2000s		Phase II: Recent	
Source of Revenues	**As % of Revenue**	**As % of GDP**	**As % of Revenue**	**As % of GDP**
Indirect taxes	30%	9%	15%	6%
Non-tax	25%	7%	25%	5%
Total Revenue	100%	30%	100%	23%

Table 1: Trends on the Sources of Revenues

From Table 1, we could see that in the 1990s and 2000s, the Total Revenue was about 30% of the GDP, whereas, in the recent years, the Total Revenue decreased to only at about

23% of the GDP. Since the Total Revenue is driven mainly by taxation (about 75% of the Total Revenue), we could say that the taxable income of the government hadn't keep up with the economic growth of the country. There were two main forces at play: i) The Total Revenue is declining in comparison to the economic growth, driven in part by lack of growth in Indirect taxes revenue (that grows slower than the economy), which left the burdens more on the Direct taxes and Non-tax revenue to fill the gaps. ii) A much sinister and serious issue is the gaps within the economic growth itself: is the economic growth to be concentrated among fewer people in the society or much wider spread (hence the tax base is narrowing or widening)? Declining revenue is the "effects", and the tax base is the "cause".

2. The other source of funding for the Government is investments income and borrowings.

	Phase I: 1990s & 2000s		**Phase II: Recent**	
Source of Funding	**As % of Revenue**	**As % of GDP**	**As % of Revenue**	**As % of GDP**
		Non-Obscured		
Borrowings	2X	60%	3X	67%
NFPE Income	65%	12%	30%	7%
		Obscured		
Direct & Indirect guarantees	0.5X	15%	2.5X	50%
NFPE Debt	60%	33%	Unknown	Unknown

Table 2: Trends on the Source of Funding

We can see that borrowings had steadily risen against the revenue (from 2 times to 3 times), which means that the ability to repay debts are getting lower, and hence unsustainable increase. At the same time, Non-Financial Public Enterprises (NFPE) couldn't cover the slack, as its income is also on a declining trend. We can see that the argument about capping debt to GDP is superfluous since revenue and income could be used to repay and service these debts, as opposed to the GDP itself. Probably, the proper measure is to cap debts to the Revenue and income capabilities rather than to the economic growth itself.

3. Obscured debts, which covers all sorts of off-balance sheet activities by the Government. These hidden debts come in three forms: i) Direct and indirect guarantees by the government; ii) Future liabilities, both contingent and otherwise; and iii) Debts by the NFPEs. As of this analysis, we couldn't get hold of these figures as they are littered

everywhere and no consolidated reporting had been made. Based on the various recent announcements, we could say that it had increased from 0.5 times by five-folds to 2.5 times. In regards to the debts by NFPE, the recent figures are nowhere to be reported on a consolidated basis, and hence they are relatively obscured and hidden from the public. Judging on the various information, these figures should be extremely alarming (examples includes various newly setup NFPEs such as PTPTN, FGV, PRIMA, as well as older NFPEs such as PETRONAS, MARA and the various Federal Authorities and GLCs.)

B. Expenditures

1. Single largest item in the governments Operating Expenditures (OPEX) is Emoluments and Retirement contribution, followed by debt services and subsidies.

	Phase I: 1990s & 2000s			**Phase II: Recent**		
	As % of OPEX	**As % of GDP**	**Per Population**	**As % of OPEX**	**As % of GDP**	**Per Population**
Emoluments	30%	8%	820	33%	7.5%	2,100 (2.5X)
Retirements	7.5%	2%	210	10%	3%	700 (3X)
Subsidies	8.5%	2%	240	12%	3%	900 (3.75X)
Debt services	15%	4.5%	450	12%	3%	950(2X)
Total	56.5	209	20	220	1,012	32

Table 3: Trends on the Operating Expenditures

As can be observed, all items of Operational Expenditures mentioned, increased by few multiples in terms per capita, whilst as a percentage of OPEX and GDP remains almost the same throughout both Phases. It could lead to conjecture that the size of government, increased against the size of the population - hence indicates inefficiencies in the provisions of government services (or large government). At the same time, we could see that the provision of subsidies per capita had also increased as well as the burden of debt services on the public. This could also indicate that the GDP growth to some degree attributed to the growth of government services, which by itself, is quite alarming - and could be part of the explanations why the Revenue is not growing as fast as GDP growth since the government does not contribute directly to tax receipts.

2. Trends for Development Expenditures (DevEx).

	1990s & 2000s		Recent	
	As % of GDP	**Per Population**	**As % of GDP**	**Per Population**
Operational Exp	25%	2,800	22%	6,750
Development Exp	12%	1,350	4%	1,250
Ratio OpEx/ DevExp	2X	2X	5.5X	5.5X

Table 4: Trends in Development Expenditure

The most glaring factor is massive reductions of Development Expenditure (as % of GDP), which also leads to higher ratios of OpEx/DevEx. We can see that literally, the development expenditures per capita remains almost flat in nominal terms (from RM1,350 to RM1,250; if real terms is used, it would show a significant decrease). In short: the country's budget had moved into operational focus and less on developmental focus. Since development is generally funded by debt and income from NFPEs, such trend as mentioned might indicate that the country's ability to grow, fed by both sources had reached it's optimal (or maximal) stage as of the year 2000s, and the chance to grow the Development expenditures by both means in the future is extremely doubtful. This probably is the main cause for the governments to go by the way of Private Funding Initiatives (PFIs), as well as borrowing by unconventional means (Project financed by foreign entities - such as ECRL, HSR, and others). The problem is these PFIs and unconventional funding will eventually enter the government income statements and balance sheet, albeit, a bit later with possibly many dire consequences. Lack of development expenditures doesn't bode well for the long-term growth of the economy, since it is akin to investments where the results will yields at a later time, in terms of future growth. In fiscal policy terms - we could say that "pump-priming" has its own limitations, and in the case of Malaysia, it probably had reached its natural limits.

3. In finance, we also look at what is called as "Debts Services Cover Ratios (DSCR)", which is presented in the following figures:

	1990s & 2000s		Recent	
	As % of Debt	**As % of Total Debt**	**As % of Debt**	**As % of Total Debt**
Revenue	45%	35%	32%	22%
Debt services expenditures	7%	5.5%	3.5%	2.5%

Table 5: Trends of Debt Services

The government revenue as a percentage of debt and total debts had deteriorated significantly. Which also signifies further that less and less amount is available (or allocated) for debt repayments and services of interests. This would generally cause the government debts in existence to be of longer tenure (to defer repayments), the costs of borrowings to increase over time, and the compounding effects of interest to be larger (i.e. payment of interests on interests), reduce the government capabilities to increase it's borrowing.

4. A final note for this section that we would like to ask is: do we have contingency budget in the expenditures to cover unexpected or unscheduled events such as sudden (or untimely) crystallization of guarantees due to some rouge activities such as 1MDB?

REVENUE VS. EXPENDITURES

Now we would like to combine the discussion between the Revenues and Expenditures as a related process. This could be performed by identifying the matches (or mismatches) between the sources of revenue and the expenditures.

1. Ideally, the budgets should match between the Indirect Taxes with the Social sector expenditures. Indirect taxes are generally a wider based tax, and hence, its distributions should ideally be as wide, and both should match as closely as possible. From the trends presented, it is obvious that Indirect Taxes, which today stood at 15% of the Revenue is largely mismatched with the Social Sector's 38% ratio of total Operational Expenditure. The previous administration's way to deal with this was to introduce GST, to cover the gaps. What would be the PH's approach?

2. Revenues have its natural limits and can't grow indefinitely. Off course, expenditures could only grow as the subsequent effects of revenue growth. As revenue growth tapers, should the size of the government (as the main source of expenditures) also curtail? If we could plot the revenue paths, could we plot the path of the growth in the size of the government to be in line with the revenue path, and yet at the same time increase the efficiency of deliveries of services to the people? In this regard, a proper path would be the productivity measures of government services, which is practically not available, as benchmarks. As a case in point, instead of direct cash handouts of BRIM (which is a way of delivering services), could other ways be more effective, such as to increase the quality of delivery of health care services and education services? In short, the mismatch between the revenue growth calls for careful analysis of budget allocations on the expenditure side and

should be focused on increasing productivity rather than purely based on popularity measures.

3. Probably, the single largest immediate concern is the mismatch between the Revenues and Incomes from other sources (i.e. from NPFEs) against the debts and total indebtedness of the country. There are no quick fixes for increasing Revenues and Incomes, but the impact of debts repayments are quick and immediate. Would then the option of selling off government assets (i.e. NFPEs) be a quick fix to close the gaps? Or are there other options at hands available to the current administration to have a quick fix, without altering the current trends of expenditures?

PH MANIFESTO AND PROMISES

There are many issues which were brought up prior and during GE14 elections by UMNO/BN and Pakatan Harapan, as declared in their manifestos. Here we would like to touch on some of them.

1. SST versus GST

One of the most controversial and debated issues is whether GST (BN/UMNO) should be replaced with SST (PH). GST caused the prices to increase, whilst SST would not, as the arguments put forth by each side. We would like to point out that there are two factors at play:

1.1. The "real costs" of goods and services. The "real costs" is actually not in the raw prices as its exhibits (which could be directly observed), but rather the Real Purchasing Power (RPP) of the public (which is not directly observable). RPP in turns depends on the Real Income or the productivity increase of the people. RPP doesn't relate to either GST or SST but relates to the overall performance of the economy and its level of productivity.

1.2. Direct effects of GST or SST as tax methods on the public. GST or SST are both wide based taxes, as well as progressive taxes. The difference between the two is rather semantic in terms of their differences (since the methods of application differ), but the effects on the public as well as its capabilities to generate revenue are almost the same, depending on the methods of implementations. Generally, as practiced in Malaysia, GST was a wider based taxation, since the Goods and Services covered are very wide, and hence it has a wider tax base than the old SST, which was in practice prior to GST introduction. New GST could be corrected by redefining the base, and corrections to its implementation, which would results in lower revenue from GST (hence lesser effect on the general population). New SST could be introduced to have the same effect, by defining the tax base and hence lesser effect on the wider population in a similar manner New GST could perform. In any case, given the popular promises of PH, they have to narrow the tax base and hence lower revenue figures, under the name of New SST, nothing more, nothing less.

1.3. The impacts on the Real Purchasing Power of the public is, in fact, a totally different subject as mentioned before. The effects of New SST, on the so-called costs of living, is unlikely to change, as long as the productivity levels remain the same.

2. <u>Cost of livings</u> - PH promises of abolitions of tolls, reducing of other costs of livings such as costs of health care services, education services, etc., as opposed to BN/UMNO ways of "spending without regards to people's costs of living". The arguments here are few folds:

2.1. The declining Real Purchasing Power as described before, is the main culprit for the impact on peoples cost of living.

2.2. The long-term effects of poor planning by the BN/UMNO government, since the late 1990s, whereby focused on productivity had failed and the income gap between the top compared to the bottom of the society had widened to unsustainable levels. Unfortunately, there are not much data and studies available investigating these effects fully. Without such analysis, any attempts at reviving any old initiatives or new initiatives could lead to further exacerbation of an already unsustainable environment.

2.3. In all honesty, unless PH took the bull by the horn, and starts to look at the various long-term effects, instead of popular exercises, then we could expect not much to happen (at least in the short-term) as far as the costs of living is concerned.

3. <u>Debt restructuring exercises</u>: One major exercise that the PH government has to do is to deal with massive debt restructuring exercises, which among others would include the likes of 1MDB, PTPTN, mega-projects, and others - which figures are staggering (could be amounting to few hundred billion). There are few possibilities that could take place:

3.1. Reclassifications and rescheduling the debts. This is won't be an easy exercise as it involves many third parties, who probably would be unwilling to compromise, and it looks very bad, since it is akin to declaring insolvency of the country.

3.2. Increasing the revenue - which is impossible, since existing revenue-expenditure matchings are already under constraints.

3.3. Sell off NFPE or government assets - which is possible, but at a massive trade-off, since any fire-sale is bad in terms of valuations, plus the assets itself are intertwined with the government policies in terms of its revenue flows and most assets are not free from some other debts attached to it. However, we cannot discount the temptation of asset sales as it would be the easier routes.

3.4.Getting fresh Foreign Direct Investments (FDIs). This won't be easy since it requires time and plans. Furthermore, only productive FDIs should be encouraged against any non-productive FDIs, which generally considered as "hot-monies".

4. <u>Corruptions and leakages</u>: We do not view that the subject of corruptions as the main source of the economic malaise of the country, even though it may be significant in terms of image and public opinion/confidence. In terms of hard numbers, there are no real measures or indicators which we could say that their eradication will have immediate improvements of the economy.

<u>WHAT DO WE WANT TO SEE IN THE 2019 BUDGET EXERCISE</u>

Finally, as concluding notes, we would point out the following observations and predictions:

1. <u>Restatement of 2017 and 2018 accounts.</u>

We predict that massive restatements of the various government accounts will be made by PH government. This would serve few purposes: i) To avoid blame on any measures to be taken, by putting many of the problems arises, are results from mismanagement of the previous administrations. ii) To soften the blows of public expectations on non-delivery of some of the promises made during GE14 (and delay their expectations to future dates); iii) To justify some of the unconventional approaches to be undertaken, which could be extremely controversial.

2. <u>Disclosure on the budget process and total transparency of the process.</u>

The blame game is actually is the domain of politics, which is somehow unavoidable. We are more interested in the methods of the budget itself, what actions are taken and why? We are keen to see the budget process to be cleared from any obscure methods and processes, instead of providing lump-sum figures, we would like to see more granular aspects of reasonings. And furthermore, for once, let the government be truly transparent in all its actions, right to its bottom lines.

3. <u>Popular short-term focus versus long-term gains.</u>

As apparent in our discussions, aligning short-term popular fiscal policies with long-term gains was not done in the past. We would like to see significant changes in this respect. In another word, we would like to see the forecast for the country at least five to ten years ahead. We want to know what are the long-term trends that we seek to sustain, and whether any short-term trends will likely lead us towards those intentions.

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(**) LeadUS is a Think-Tank organization consists of Malaysian professionals which graduated from the universities in the United States and other overseas higher-learning institutions. As professionals, LeadUS promotes analysis, discussions, and opinions on Social, Economic, and Political backed by scientific approach and methods. LeadUS seeks to define the New Malaysia within this context.

APPENDIX

A.1 Federal Government Revenue

Fiscal year	2014(a)	2015(a)	2016(a)	2017(e)	2018(e)
Direct taxes	57%(126)	51%(111)	52%(110)	53%(120)	53%(128)
(1) Individual	11.1%(24)	12.0%(26)	13.0%(27)	13.3%(30)	13.3%(32)
(2) Corporate	29.5%(65)	29.0%(63)	29.7%(64)	29.8%(67)	30%(72)
(3) Petroleum	11.8%(27)	5.3%(11)	3.9%(8)	4.4%(11)	4.7%(11)
Indirect tax	17%(37)	24%(53)	28%(60)	27%(60)	27%(64)
(4) Duties	7.9% (17)	7.1%(16)	7.3%(16)	7.1%(16)	7%(17)
(5) SST	7.8%(17)	3.75%(8)	N/A	N/A	N/A
(6) GST	N/A	12.3%(27)	19.3%(41)	18.4%(41)	*18.2%(43)*
Non-tax	25%(56)	24%(53)	20%(43)	20%(45)	20%(48)
(7) Licenses	6.4%(14)	5.7%(12)	5.7%(12)	5.3%(12)	N/A
(8)Investments	15.0%(34)	15.0%(33)	10.0%(21)	10.0%(23)	N/A
Total	100%(220)	100%(219)	100%(212)	100%(225)	100%(240)

Notes: All numbers in RM billions; Classifications: (i) Direct taxes mainly comes from three categories: (1) Individual (IITA), (2) Companies (CITA), (3) Petroleum (PITA); and (ii) Indirect taxes mainly comes from: (4) SST, (5) GST and (6) Duties. (iii) Non-tax income mainly from: (7) Licenses and permits, and (8) Investment incomes. All 8 items constitute almost 98% of the total income. Analysis on changes to these items determines the changes to the total income.

<u>A.2 Federal Government Operating Expenditures - By Sectors</u>

Fiscal year	2014(a)	2015(a)	2016(a)	2017(e)	2018(e)
Economic	8.8%(19)	9.2%(20)	9%(19)	7.5%(17)	8.7%(20)
(1) Agri, rural	2.4%(5.4)	2.2%(4.7)	2%(4.3)	1.7%(3.8)	1.8%(4.2)
(2) Trade, Industry	3%(6.7)	3%(6.8)	2.6%(5.5)	1.4%(3)	2.7%(6.2)
(3) Transport	2.4%(5.3)	2.5%(5.5)	3%(6)	3%(6)	2.8%(6.5)
Social	37%(81)	38%(83)	39%(82)	39.5%(87)	38%(90)
(4) Education	23% (52)	24%(52)	25%(52)	24%(54)	24%(56)
(5) Health	9%(21)	10%(22)	10%(22)	10.8%(23)	10.6%(25)
(6) Others	3.8%(8)	4%(9)	3.7%(8)	4%(9)	3.6%(8.5)
Security	12%(26)	12%(27)	11%(24)	11%(25)	11%(26)
(7) Defence	6%(13)	6%(13)	4.8%(11)	5.3%(12)	5.4%(12)
(8)Internal	6%(13)	6.5%(14)	6.2%(13)	5.9%(13)	5.8%(14)
G&A	7.4%(16)	7.6%(17)	7.4%(16)	5.2%(11)	6.8%(16)
Others	35%(76)	34%(69)	32%(68)	36%(80)	35%(82)
Total	100%(219)	100%(217)	100%(210)	100%(220)	100%(234)

Notes: All numbers in RM billions (i) Economic expenditures, represented mainly by: (1) Agriculture and Rural developments, (2)Trade and Industry, and (3) Transportations. Others would include energy and utilities, communications, environments, etc. (ii) Social expenditures, represented mainly by: (4) Education, (5) Health, (6) Others, (iii) Security: (7) Defence and (8) Internal security, (iv) General Administration (G&A) (v) Others, which includes debt services, charges and transfer payments.

A.3 Federal Government Operating Expenditures - By Uses

Fiscal year	2014(a)	2015(a)	2016(a)	2017(e)	2018(e)
Emoluments	30%(66.9)	32.3%(70)	34.8%(73)	35.8%(78.8)	33.8%(79)
Retirement charges	8.3%(18.2)	8.7%(18.9)	10%(21)	10.8%(23.6)	10.5%(24.5)
Debt service charges	10.3%(22.5)	11.2%(24.3)	12.6%(26.5)	13.1%(28.8)	13.2%(30.8)
Grants to states	3%(6.5)	3.2%(6.9)	3.3%(6.9)	3.7%(8.0)	3.4%(8.0)
Supplies & services	15.6%(34.2)	16.8%(36.3)	11%(24)	14.8%(32.6)	14.4%(33.6)
Subsidies & social assitance	18.1%(39.7)	12.6%(27.3)	14.3%(30)	10.5%(23.1)	11.3%(26.5)
Asset acquisitions	0.8%(1.8)	0.8%(1.7)	0.3%(0.7)	0.3%(0.7)	0.2%(0.5)
Grants to Stat bodies	7.4%(16.3)	7.1%(15.5)	6.5%(13.6)	6.1%(13.5)	5.6%(13.1)
Others	5.4%(11.8)	6.9%(15)	6.1%(12.8)	4.5%(9.8)	7.2%(16.9)
Total	100%(219)	100%(217)	100%(210)	100%(220)	100%(234)