

FISCAL OPERATIONS AND MANAGEMENT IN MALAYSIA :  
AN ANALYTICAL STUDY

NORDIN BIN MEHAT



110294

110294

UNIVERSITI UTARA MALAYSIA

1999



## **ABSTRACT**

This project paper is a fresh study made to provide a comprehensive analytical review of fiscal behavior and management of Federal Government of Malaysia during post New Economic Policy era. The composition and growth trend of revenue system has been examined together with size and pattern of government spending for the period 1971 – 1998. The nexus between government deficits and public debt has been searched. The study suggests that fiscal operation and budgetary components have prudently managed in achieving its goals towards strong economic fundamental with macrobalancing.

## CHAPTER ONE

### INTRODUCTION AND PROBLEM STATEMENT

#### 1.1 Introductory

Following the "Keynesian Revolution" in economic thinking which favored increasing role of the state in a market economy for managed capitalism; the concept of budgetary policy and fiscal management received a new vista in modern times. With the changing role and responsibilities of the government in developing economy such as Malaysia, fiscal policy assumes a unique significance. For, it is a right wing of macroeconomic policy in moulding and managing the country's economy in the pursuit of realization of predetermined national socio-economic goals.

In a broad sense, fiscal policy comprises deliberate changes in the size, form and timing of taxation, government expenditure and public debt operations to influence economic activity. Fiscal or budgetary management is based on fiscal policy. Fiscal management

serves as an instrument to manage the country's economy in a desirable way; it may be regarded as a catalyst agent for growth, development, equity and stability among other ends of the developing nation.

A right kind of budgetary policy and appropriate fiscal management is essential. The present study is intended to explore and examine the course of fiscal operations and management of the Malaysian government since the inception of New Economic Policy in 1971 till present.

Fiscal policy is an integral organ of modern public finance. It relates to government spending, taxing and borrowing and management of the public debt. The term fiscal policy, in a strict sense, embraces the tax-expenditure policies of the government. Thus, fiscal policy operates through the operations of government expenditures and tax revenues.

The taxation policy of government relates to the programs of curbing private spending. Expenditure policy deals with the channel which government pumps resources into private economy.

## **1.2 Malaysian Context: The Problem Statement**

The economic system of Malaysia is based essentially on private enterprise, with the government playing an active role in development of nation's natural, mechanical, technical and human resources, aided by prudent fiscal and monetary management in an environment of political stability, which has made Malaysia one of the relatively more progressive, prosperous and rapidly growing economies in Asia. To a large extent, the growth and vitality of the Malaysian economy is attributed to its young and enterprising population and private investment, including foreign investment, which has committed substantial capital and modern technology towards exploitation of the country's abundant resources for progress and prosperity.

The public sector in Malaysia consists of the Federal Government, thirteen state, non-financial public enterprises (Napes), and public financial institution such as Employee Provident Fund (EPF) and Bumiputra Investment Foundation. The fiscal system of Malaysia operates under a federal structure. Under the Federal Constitution (10<sup>th</sup>-schedule), the main revenue sources assigned to the state are receipts from land sales, revenue from lands, mines and forest, entertainment duty and Islamic religious revenue. Additional sources of revenue are