



FISCAL UPDATES 2018

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Highlights

- Fiscal policy continues to support growth and macroeconomic stability
- Resetting fiscal consolidation path
- Commitment to reduce debt and liabilities

Overview

Restoring public finances

1. The year 2018 marks a new fiscal consolidation path with the Federal Government resetting its fiscal deficit from 2.8% of GDP to 3.7%. The higher level of fiscal deficit is an interim measure to accommodate short-term policy adjustments particularly in providing allocation for off-budget spending, tax refunds and additional expenditure measures. Nevertheless, the Government remains committed towards fiscal consolidation to gradually reduce the deficit and debt level in the medium-term.

The Government is committed towards fiscal reform initiatives that focus on fiscal transparency and governance as well as rigorous expenditure optimisation to eliminate wastages and reduce leakages.

Table 1: Federal Government Financial Position 2017-2019

	RM million			Share of GDP (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Revenue	220,406	232,882	261,814	16.3	16.3	17.1
Operating expenditure	217,695	230,960	259,850	16.1	16.2	17.0
Current balance	2,711	1,922	1,964	0.2	0.1	0.1
Gross development expenditure	44,884	56,095	54,700	3.3	3.9	3.6
Less: Loan recovery	1,852	788	656	0.1	0.1	0.0
Net development expenditure	43,032	55,307	54,044	3.2	3.9	3.5
Overall balance	-40,321	-53,385	-52,080	-3.0	-3.7	-3.4

¹ Preliminary.

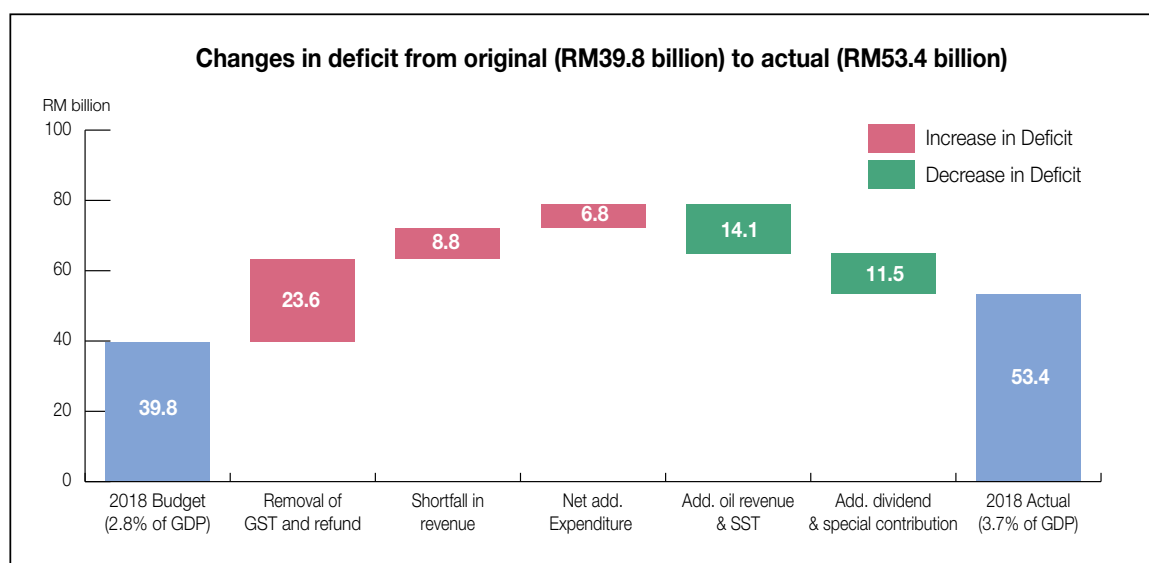
² Budget estimate, excluding 2019 Budget measures.

2. In the medium-term, the fiscal stance will continue to support growth and strengthen public finances. The medium-term fiscal framework (MTFF) serves as a guide in charting a new fiscal consolidation path. Among the main measures identified to enhance public finance practices include the enactment of the Fiscal Responsibility Act (FRA), Government Procurement Act and the adoption of an accrual basis of accounting. In addition, to ensure prudent debt management and comprehensive monitoring of Government debt and liabilities, the Debt Management Office will be established.

3. In 2018, Malaysia's economy expanded 4.7% underpinned by strong domestic activities and steady external demand. The abolition of Goods and Services Tax (GST) in June 2018 helped to boost private consumption by 8.1%. Amid global economic uncertainties, private investment continued to record a commendable growth of 4.5%, with capital spending largely in services and manufacturing sectors. Meanwhile, public sector expenditure increased marginally following completion of several projects by public corporations such as PETRONAS RAPID project and Manjung Coal-fired Power Plant (Manjung 5). The Government will ensure public expenditure will focus on projects with high multiplier impact and remain accommodative towards supporting private investment with high value-added activities.

4. The Government achieved its revised fiscal deficit target of 3.7% of GDP in 2018. Federal Government revenue increased 5.7% to RM232.9 billion mainly contributed by higher investment income as well as individual and petroleum income tax (PITA). Meanwhile, operating and development expenditure grew higher by 6.1% and 25% to RM231 billion and RM56.1 billion respectively to accommodate off-budget items and additional expenditure requirements. Hence, the deficit increased from original estimates of RM39.8 billion to reach RM53.4 billion (Figure 1). The primary balance which excludes debt service charges amounted to RM22.8 billion to record a deficit of 1.6% of GDP.

Figure 1: Federal Government Financial Position - 2018 Budget vs Actual



5. As at end-2018, the Federal Government debt as a percentage to GDP increased to 51.8% as compared to 50.7% as at end-2017, in consonance with the higher fiscal deficit. However, gross borrowings accounting for 9.2% of GDP, remained well below the threshold of 15% as proposed by the IMF for emerging economies. In addition, the Government debt and liabilities exposure is estimated around 76% of GDP after taking into account, among others, committed government guarantees (GGs) and public-private partnership (PPP) cash obligations.

6. Given the strong economic fundamentals and commitment towards fiscal consolidation, major credit rating

Fitch	S&P Global	Moody's
A-(Stable)	A-(Stable)	A3 (Stable)

agencies, namely Fitch, S&P Global and Moody's have reaffirmed Malaysia's sovereign credit ratings at A-/A3 with a stable outlook. The credit rating agencies acknowledged that the fiscal adjustment is a one-off measure and the consolidation will resume in 2019 and onwards. The credit strength is also backed by robust economic fundamentals and strong growth above peers' median. Furthermore, the recent Article IV assessment by IMF highlighted the importance of revenue mobilisation in broadening the revenue base and reducing the dependency on oil-related revenue, which is anchored by the Tax Reform Committee. In addition, the expenditure rationalisation initiative which is supported by the implementation of the zero-based budgeting process is expected to strengthen public finances.

Revenue

Higher revenue albeit abolition of GST

7. For 2018, the Federal Government revenue amounted to RM232.9 billion, a net shortfall of 2.9% or RM7 billion compared to the original estimates. The shortfall was primarily due to lower collection from Companies Income Tax (CITA) amounting to RM6 billion, excise duties (RM1.6 billion) and GST (RM23.6 billion). However, the shortfall was partly cushioned by higher PITA collection (RM8.7 billion) and additional dividend from PETRONAS (RM7 billion), resulting from higher crude oil price

averaging at USD71.2 per barrel as compared to original assumptions of USD52 per barrel. In addition, the revenue shortfall was cushioned by higher Sales Tax and Service Tax (SST) (RM5.4 billion) and one-off contribution from Retirement Fund (Incorporated) (KWAP) of RM4.5 billion. On a year-on-year basis, total revenue increased 5.7% mainly contributed by companies, individual and petroleum income taxes as well as PETRONAS dividend.

Table 2: Federal Government Revenue 2017-2019

	RM million			Share (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Tax revenue	177,658	174,061	176,152	80.6	74.7	67.3
Direct tax	116,024	130,035	135,068	52.6	55.8	51.6
Indirect tax	61,634	44,026	41,084	27.8	18.9	15.7
Non-tax revenue	42,748	58,821	85,662	19.4	25.3	32.7
Total revenue	220,406	232,882	261,814	100	100	100
Share of GDP (%)	16.3	16.3	17.1			

¹ Preliminary.

² Budget estimate, excluding 2019 tax measures.

8. Tax revenue at RM174.1 billion or 74.7% to total revenue, remained as the major contributor to total revenue. Direct tax collection which constituted 74.7% of tax revenue increased 12.1% to RM130 billion (2017: RM116 billion). The higher collection was largely contributed by a significant increase in PITA to RM20.1 billion (2017: RM11.8 billion) in tandem with higher annual average crude oil prices in 2018. Other contributors include CITA which increased RM2 billion, individual income tax (RM3.7 billion) and stamp duties (RM0.3 billion).

- 9. Income tax continued to be a vital component in driving tax revenue collection.** CITA collection improved 3.1% to RM66.5 billion (2017: RM64.5 billion) in line with higher GDP growth and encouraging business activities in 2018. Individual income tax increased 12.6% to RM32.6 billion (2017: RM28.9 billion) underpinned by stable employment and wage growth. Meanwhile, stamp duties rebounded 4.6% to RM5.9 billion (2017: RM5.7 billion) on the back of higher property value in the market.
- 10. Indirect tax contracted 28.6% to RM44 billion (2017: RM61.6 billion) in the absence of GST collection effective 1st June 2018.** During the 2018 Budget tabled in October 2017, net GST was estimated at RM43.8 billion. With the abolition of GST, the actual collection for the year amounted to only RM20.2 billion after netting off refunds about RM23 billion. In addition, following the reintroduction of the SST in September 2018, the actual collection recorded RM5.4 billion, higher than the earlier estimates of RM4 billion. Thus, the net shortfall of consumption tax amounted to RM18.1 billion.
- 11. In 2018, higher excise duties on imported goods and export duty contributed to better indirect tax collection.** Indirect tax (excluding GST as well as SST) increased by 6.2% to RM18.3 billion primarily contributed by higher excise duties and export duty collection. Excise duties turned around by 6.6% to RM10.8 billion (2017: RM10.1 billion) contributed by higher excise duty on imported cigarettes and CBU vehicles. About 80% of the total excise duties collection was contributed by cigarettes and motor vehicles. Export duty rose 27.3% to RM1.7 billion (2017: RM1.4 billion) in consonance with the higher crude oil price, of which export duty on crude petroleum constituted 87.7% of the total.
- 12. Non-tax revenue surged 37.6% to RM58.8 billion (2017: RM42.7 billion) mainly contributed by higher interest and return on investment collection of RM31.9 billion (2017: RM21.6 billion).** The increase was primarily due to higher proceeds from PETRONAS dividend of RM26 billion (2017: RM16 billion). In addition, the Government received a special contribution from KWAP of RM4.5 billion to partly finance the retirement charges. Meanwhile, dividend receipts from Bank Negara Malaysia and Khazanah Nasional Berhad were RM2.5 billion and RM1.6 billion, respectively. Petroleum royalty rose 17.4% to RM5.2 billion (2017: RM4.4 billion) on account of higher crude oil price.
- 13. The share of petroleum-related revenue to total revenue remained stable at about 23% compared to the highest share of 41.3% in 2009, reflecting the continuous efforts to diversify and broaden non-oil revenue.** Non-petroleum revenue after excluding consumption tax, increased 8% to RM152.7 billion (2017: RM141.4 billion) supported by stable GDP growth in 2018 of 4.7%, business activities, better tax administration and higher tax compliance. The establishment of the Tax Reform Committee to enhance the revenue system will further strengthen the tax reform measures during the adjustment period. Thus, the Government is confident in increasing its tax collection, reducing the tax gaps and improving efficiency in order to enhance tax buoyancy.

Expenditure

The recalibration of spending priority

14. In 2018, total Federal Government operating (OE) and development (DE) spending recorded RM287.1 billion, 2.4% higher than the original budget of RM280.3 billion. The increase was to accommodate new policy direction, new expenditure for programmes and projects including allocation to service off-balance sheet items, as well as reclassification of development-related items from OE to DE, and after taking into account savings from review of existing programmes as well as the shortfall in other spending. The additional expenditures include fuel price stabilisation program, special cash assistance for civil servants and pensioners, additional supplies and services, termination of Johor Bahru Eastern Dispersal Link Expressway (EDL) concession, and construction of transportation projects such as MRT, LRT3 and Electrified Double Track Project (EDTP) as well as other people centric programmes and projects.

15. On an annual basis, total spending increased by 9.3% with DE posting higher growth. OE, which constituted 80.5% of total spending, grew 6.1% to RM231 billion while DE grew 25% to RM56.1 billion. In terms of share to GDP, OE stood at 16.2% while DE increased 0.6 percentage point to reach 3.9%, hence resulting in an overall spending share to GDP of 20.1% (2017:19.4%).

16. In terms of overall spending by sector, the social sector remained the largest recipient of Government spending (after excluding charged expenditures and transfers) followed by the economic, security and general administration sectors. Spending for the social sector stood at RM103.8 billion or 36.2% of total expenditure in 2018, of which 87.6% was spent on educational, skills training as well as healthcare programmes and projects. Outlays for the economic sector was at RM50.2 billion (17.5%), with 64.6% spent on transportation, agricultural and rural development as well as trade and industry-related programmes. In addition, 11.2% was utilised for programmes or projects related to defence and internal security under the security sector; and 6.9% was spent under general administration sector to further enhance public sector delivery. Meanwhile, the balance of the Government spending was spent on charged expenditures and transfers, which include debt service charges, retirement charges and constitutional transfers to state governments.

17. OE continued to expand with emoluments, supplies and services as well as charged expenditures constituting 76.1% of total OE. Subsidies and social assistance recorded the highest annual growth of 23.1% (2017:-9.5%), followed by retirement charges (10.4%) and debt service charges (9.6%). In addition, emoluments as well as supplies and services, which are the two largest components of OE grew marginally by 3.8% and 1.6%, respectively.

18. Outlays on subsidies and social assistance programmes increased by 23.1% to RM27.5 billion mainly due to the stabilisation of retail petrol RON95 and diesel prices. The fuel subsidies increased to RM7.5 billion compared with RM3.1 billion in the previous year. Meanwhile, education and welfare assistance registered RM6.9 billion.

19. Emoluments rose at a slower pace but remained the largest OE component. Emoluments rose 3.8% to RM80 billion mainly due to the normal annual salary increments and higher special

cash assistance for civil servants of RM2.4 billion compared with RM1.3 billion in the previous year. Civil servants received higher special cash assistance of up to RM1,900 in 2018, compared to RM1,000 in 2017. Emoluments as a share to GDP fell to 5.6%. Meanwhile, the increase in retirement charges was partly attributed to the higher number of pensioners opting for early retirement. Retirement charges rose 10.4% to RM25.2 billion, of which was partly financed by special contribution from KWAP amounting to RM4.5 billion.

20. Debt service charges (DSC) increased further but remained below the administrative fiscal rule of 15% of OE. DSC grew by 9.6% to RM30.5 billion in tandem with higher accumulated deficit. About RM29.9 billion or 97.9% of DSC was for domestic debt primarily made up by Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII). DSC represented 13.2% of OE and is constitutionally required to be met before all other discretionary expenditures.

21. Marginal growth in supplies and services as well as grants and transfers to state governments. Supplies and services grew 1.6% to RM35.3 billion mainly due to higher outlays for professional services. Meanwhile, grants and transfers to state governments increased to RM7.6 billion, mainly attributed to higher payments into State Reserve Fund.

22. Rationalisation of grants in particular to entities with high accumulated reserves continues. Grants to statutory bodies, which are primarily to cater for emoluments as well as supplies and services, decreased 2% to RM13.8 billion. Public institutions of higher learning remained the largest recipient, receiving 64% of total grants to statutory bodies. Although the Government is committed in rationalising grants particularly to entities with high accumulated reserves, the measure was gradually implemented to ensure the cash flow of the entities involved were not affected.

Table 3: Federal Government Operating Expenditure by Object 2017-2019

	RM million			Share (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Emoluments	77,036	79,989	82,045	35.4	34.6	31.6
Retirement charges	22,800	25,177	26,557	10.5	10.9	10.2
Debt service charges	27,863	30,547	33,000	12.8	13.2	12.7
Grants and transfer to state governments	7,109	7,605	7,571	3.3	3.3	2.9
Supplies and services	34,738	35,283	29,068	16.0	15.3	11.2
Subsidies and social assistance	22,354	27,516	22,269	10.3	11.9	8.6
Asset acquisition	516	447	673	0.2	0.2	0.3
Refunds and write-offs	973	883	921	0.4	0.4	0.4
Grants to statutory bodies	14,044	13,763	12,968	6.5	6.0	5.0
Others	10,262	9,750	44,778	4.6	4.2	17.1
Total	217,695	230,960	259,850	100	100	100
Share of GDP (%)	16.1	16.2	17.0			

¹ Preliminary.

² Budget estimate, excluding 2019 Budget measures.

23. DE increased by RM11.2 billion to record RM56.1 billion. The significant increase was due to additional DE requirement mainly for public transportation infrastructure projects such as MRT, LRT3 and EDTP as well as compensation for the termination of Johor Bahru EDL concession. In addition, DE outlays included the Government Integrated Radio Network (GIRN), highway and sewerage projects as well as the reclassification of a number of development-related items from OE to DE such as transfers to DanaInfra Nasional Bhd and PFI as well as MARA for education and training fund. Of the total DE allocation for the year, RM54.4 billion was direct allocation while RM1.7 billion was in the form of loans to state governments and Government-linked entities.

Table 4: Federal Government Development Expenditure by Sector 2017-2019

	RM million			Share (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Economic	24,186	36,103	29,235	53.9	64.4	53.4
of which:						
Transport	10,429	17,004	13,388	23.2	30.3	24.5
Trade and Industry	3,800	2,512	5,721	8.5	4.5	10.5
Energy and public utilities	2,475	2,254	4,589	5.5	4.0	8.4
Agriculture and rural development	2,219	2,133	2,278	4.9	3.8	4.2
Environment	2,061	1,665	2,134	4.6	3.0	3.9
Social	12,425	12,873	15,183	27.7	22.9	27.8
of which:						
Education and training	6,306	6,505	8,287	14.0	11.6	15.1
Housing	785	1,285	1,652	1.7	2.3	3.0
Health	1,470	1,773	2,257	3.3	3.2	4.1
Security	5,334	4,929	7,082	11.9	8.8	12.9
General administration	2,939	2,190	3,200	6.5	3.9	5.9
Total	44,884	56,095	54,700	100	100	100
Share of GDP (%)	3.3	3.9	3.6			

¹ Preliminary.

² Budget estimate, excluding 2019 Budget measures.

24. The economic sector remained as a DE priority. The economic sector continued to be the largest recipient of DE with a share of 64.4% followed by the social (22.9%), security (8.8%) and general administration (3.9%) sectors. Disbursement to the economic sector increased by 49.3% (2017: -3.7%) mainly for transport and finance subsectors. Construction and maintenance activities as well as upgrading works on facilities attributed to the higher expenses in the transport subsector while higher equity injection to Government-linked entities attributed to the higher outlays for finance subsector. Likewise, expenditure for the social sector rose 3.6% (2017: 19.1%) with the disbursement to the education and training as well as health subsectors increasing by 3.2% and 20.6%, respectively. This was in tandem with the Government's efforts to expand basic education and health services coverage in narrowing urban-rural development gap.

25. Lower outlays were recorded in the security and general administration sectors. Expenditure for the security sector declined 7.6% to RM4.9 billion (2017: 10.4%; RM5.3 billion). The decline was outweighed by the lower disbursement for defence subsector which included the purchase of military equipment and assets. However, expenditure for internal security increased by 63.6% due to the additional allocation for GIRN. Meanwhile, spending for the general administration sector, comprising expenses of ICT projects and upgrading of Government buildings and office equipment declined 25.5%.

26. Favourable economic growth despite lower public sector investments. The Malaysian economy recorded a nominal growth of 5.6% in 2018 (2017: 9.9%), of which the public sector accounted for 19.1% while private sector 74.6%. Public consumption, which mainly represented the general government expenditure on goods and services, grew at a slower pace of 3.5% (2017: 6.3%) due to initiatives taken by the Government to review and reprioritise expenditures. Meanwhile, public investment declined 4.6% (2017: 1.8%) largely due to lower capital spending by public corporations, especially in oil and gas-related industries.

Federal Government Debt

Debt level remains manageable

27. As at end-2018, Federal Government debt recorded a slightly higher level at 51.8% of GDP or RM741 billion, which remained manageable and below the self-imposed limit of 55%. This was due to an upward revision of fiscal deficit in 2018 to accommodate new policy direction and to address short-term adjustments. Moving forward, the Government will resume its debt consolidation plan beginning in 2019, targeting the debt position to be around 47% of GDP by 2025.

Table 5: Federal Government Debt by Instrument 2017-2018

	RM million		Share of GDP (%)	
	2017	2018	2017	2018
Domestic debt	665,572	719,545	49.1	50.3
Treasury bills	4,500	6,500	0.3	0.4
MGS	364,672	380,345	26.9	26.6
MGII	268,000	304,300	19.8	21.3
Government Housing Sukuk	28,400	28,400	2.1	2.0
Offshore borrowings	21,265	21,504	1.6	1.5
Market loans	15,580	15,907	1.2	1.1
Project loans	5,685	5,598	0.4	0.4
Total	686,837	741,049	50.7	51.8

28. Federal Government debt continued to be sourced from the domestic market, accounting for 97.1% share of total debt or RM719.5 billion, while the balance of 2.9% (RM21.5 billion) was offshore borrowings. MGS and MGII remained the largest component of domestic debt, accounting for 92.4% of total debt. The sizeable sovereign exposure in the domestic debt market provides an investment platform for local investors and institutions as well as to support active trading in the secondary bond market, hence contributing towards the stability of the financial market. Offshore borrowings which were mainly from USD-denominated global sukuk issued in 2011, 2015 and 2016 amounted to RM15.9 billion issued for international benchmark purposes. Other foreign-denominated debt included outstanding project loans from multilateral and bilateral institutions denominated in yen (RM5.3 billion), Canadian dollar (RM2.5 million) and euro (RM2 million).

29. Institutional and long-term investors, fund managers and the banking sector remain the primary holders of Government papers. As a country with deep capital market and highly-developed financial system, Malaysia exhibits a diversified investor base with local investors as the major holders of Government securities at RM558.5 billion or 75.4% of total debt. These holders consist of strong and long-term investment institutions such as banking institutions and Bank Negara Malaysia (30.9%), Employees Provident Fund (29.5%), insurance companies (4.8%), Retirement Fund (Incorporated) (3.3%), development financial institutions (2.7%), non-bank financial institutions (0.2%) and others (4%). The balance of RM182.5 billion or 24.6% was held by non-residents (NR) such as fund managers (9.1%), central bank, supranational and governments (7.5%), pension funds (3.9%), banking institutions (2.5%), insurance companies (0.5%), bilateral and multilateral institutions and others (1.1%).

30. In 2018, NR holdings in Government ringgit-denominated instruments was steady at an average of 25.1% (2017: 26.5%) reflecting foreign investors' confidence. Foreign holdings in MGS was sustained at an average of 41.7% while foreign holdings in MGII was slightly lower at 5.5% (2017: 42.3%; 7.5%). Holdings in the short-term paper (less than one year) rose to an average of 47.4% (2017: 26.9%) as investors repositioned funds in anticipation of the rate hike in US. With a deep and liquid domestic capital market, domestic investors emerged as primary buyers of domestic issuance, cushioning withdrawal of foreign investors and normalising the yield curve.

31. The debt position remained below the statutory debt limit. According to the statutory debt limit stipulated under the Loan (Local) Act 1959 [Act 637] and Government Funding Act 1983 [Act 275], the Government should not borrow more than 55% of GDP. The limit is confined to outstanding MGS, MGII and Malaysian Islamic Treasury Bills (MITB) instruments. As at end-2018, the outstanding amount of these instruments was considerably lower at 48% of GDP. This provides sufficient fiscal space for the Government to implement countercyclical measures during an economic downturn. Meanwhile, offshore borrowings which is regulated under the External Loans Act 1963 [Act 403] with a limit of RM35 billion, remained stable at RM21.5 billion.

Malaysian Treasury Bills (MTB) stood at RM4.5 billion, below the RM10 billion threshold stipulated under the Treasury Bills (Local) Act 1946 [Act 188].

Rules	Statutory Debt Limit	Administrative	End-2018
Domestic debt (MGS, MGII, MITB)	Not exceeding 55% of GDP Statute Paper 76 Year 2009 for Loan (Local) Act 1959 and Government Funding Act 1983	Self-imposed limit of 55% of GDP	48% of GDP (RM686.6b)
Offshore borrowings	Not exceeding RM35 billion External Loans Act 1963		RM21.5 billion
Conventional Treasury bills	Not exceeding RM10 billion Treasury Bills (Local) Act 1946		RM4.5 billion

32. Debt affordability ratio as measured by total interest payments over revenue was relatively higher at 13.1% of total revenue due to lower actual revenue collection compared with revised estimates (2017: 12.6%). Increased debt service charges during the year amounted to RM30.5 billion or 2.1% of GDP as a result of high-interest payment from accumulated borrowings made from previous countercyclical measures. The allocation for debt service charges is a mandated item, hence coupon payments are timely and according to schedules.

Debt and Liabilities Exposure

33. In ensuring a more comprehensive reporting to reflect the overall Government liabilities, debt reporting has taken into account the direct debt of Federal Government, committed guarantees and other obligations. As at end-December 2018, the overall Federal Government debt and liabilities is estimated at RM1.1 trillion or around 76% to GDP. These include Federal Government debt of RM741 billion, committed GG, 1MDB and other liabilities.

Borrowing Programme 2018

Tapping domestic financing

34. Given the deep and ample liquidity, the Government continues to fund its financing requirements from domestic sources. Total Federal Government gross borrowings increased by 1.8% to RM131.6 billion (9.2% of GDP). Of this, RM77.5 billion was utilised for principal repayments, while the balance of RM54.1 billion was for deficit financing. The increase was higher than earlier estimates due to the new policy direction of the Government following additional provision for off-budget items as well as tax refunds.

35. MGS and MGII remain as the main sources of borrowings. Of the total gross domestic borrowings, 48.9% or RM64.3 billion was raised through MGII while 38.8% or RM51 billion was raised via MGS. Gross offshore borrowings for 2018 remained minimal in the absence of new market issuances, with a drawdown of RM36 million for Malaysia-Japan International Institute of Technology development project.

Table 6: Federal Government Financing 2017-2018

	RM million	
	2017	2018
Gross borrowing	129,248	131,600
Domestic	129,185	131,564
Treasury bills	15,269	16,229
MGS	60,416	51,030
MGII	53,500	64,305
Offshore	63	36
Market loans	-	-
Project loans	63	36
Repayment	88,858	77,493
Domestic	88,453	77,137
Offshore	405	356
Net borrowing	40,390	54,107
Domestic	40,732	54,427
Offshore	(342)	(320)
Change in assets ¹	(69)	(722)
Total deficit financing	40,321	53,385

¹ (+) Indicates a drawdown of assets; (-) indicates accumulation of assets.

36. The average bid-to-cover (BTC) ratio for MGS and MGII papers continued to be above 2.2 times (MGS: 2.20 times; MGII: 2.35 times) with an increase of 7.4% over the previous year. Majority of the interest was skewed towards MGII supported by increased institutional investors' demand amid foreign portfolio reversal. In addition, bidding interest improved by 12.6% in 2018 compared to the preceding year as the Government received a total bid of RM228.9 billion for market issuances of RM112.8 billion.

37. In 2018, the coupon of 3-, 5-, 7- and 10-year benchmark MGS were priced at 3.451%, 3.757%, 3.933% and 4.118% respectively, while MGII at 3.752%, 3.902%, 4.181% and 4.310% respectively. Generally, yields across the entire spectrum of maturities were higher following cautious investors' sentiment prior and post 14th General Election. In addition, yields were affected by liquidity tightening from the global central banks as well as rising trade protectionism. However, yields were noticeably tighter across the curve towards the end of 2018, buoyed by firmer ringgit as well as the anticipation of a slower pace of interest rate hike in the US in 2019.

External debt

38. Malaysia's external debt¹ as a share of GDP stood at 64.7% or RM924.9 billion. Offshore borrowings, particularly by corporations and banking sector, were higher due to long-term bond and notes issued offshore to finance assets acquisition and investments abroad as well as intercompany and interbank borrowings. The weakening of ringgit against selected regional and major currencies also contributed to higher revaluation of offshore borrowings. In contrast, the lower NR holdings of ringgit-denominated papers were due to the liquidation of domestic debt securities by NR investors and refinancing of several loans with equity capitalisation by several entities. In addition, the reversal of NR holdings was partially offset by higher NR deposits. External debt continued to be manageable due to the smooth maturity profiles and diversification of currency basket as well as the availability of large external assets. As about one-third of the external debt is denominated in ringgit, this has minimised the revaluation effects from the movement of ringgit.

**Table 7: External Debt
2017-2018**

	RM million		Share of GDP (%)	
	2017	2018	2017	2018
Offshore borrowing	508,584	566,943	37.6	39.7
Medium and long-term debt	321,094	333,504	23.7	23.3
Public sector	132,464	143,325	9.8	10.0
Federal Government	16,567	16,708	19.8	1.2
Public corporations	115,897	126,617	1.2	8.8
Private sector	188,630	190,179	8.6	13.3
Short-term debt	187,489	233,439	13.9	16.4
Non-resident holdings of ringgit denominated debt securities	207,389	180,228	15.3	12.6
Medium and long-term debt	196,074	169,162	14.5	11.8
Federal Government	182,855	158,406	13.5	11.0
Others ¹	13,220	10,755	1.0	0.8
Short-term debt	11,314	11,066	0.8	0.8
Non-resident deposits	92,025	98,238	6.8	6.9
Others ²	77,221	79,478	5.7	5.5
Total	885,218	924,887	50.7	64.7

¹ Include private sector and public corporations.

² Comprise trade credits, IMF allocation of SDR and miscellaneous.

Source: Bank Negara Malaysia.

Conclusion

39. The Government will resume its fiscal consolidation efforts on a more gradual basis while undertaking fiscal adjustments which include the one-off tax refunds payment. In 2019, the deficit is targeted to be lower at RM52.1 billion or 3.4% of GDP.

¹ Comprising both public and private sector debt which includes offshore borrowing; NR holdings of ringgit-denominated debt securities; NR deposits; as well as other external debt which include trade credits, IMF allocation of Special Drawing Rights (SDR) and miscellaneous such as insurance claims yet to be disbursed and interest payable.

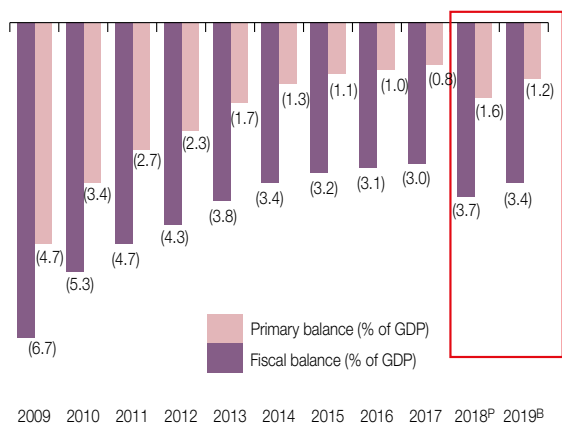
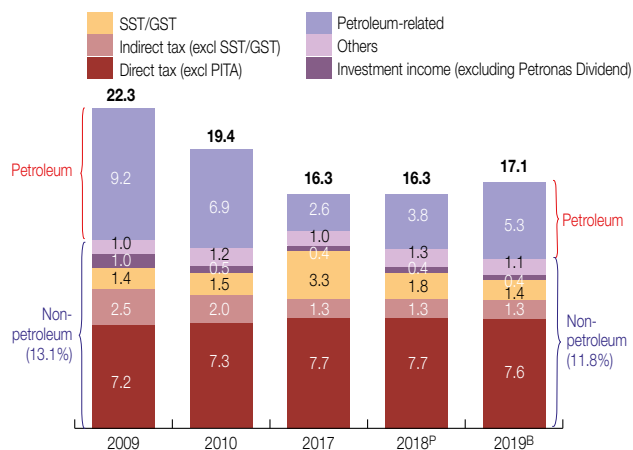
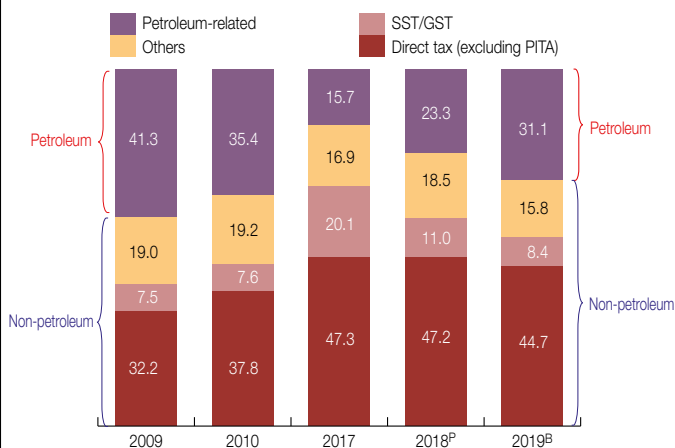
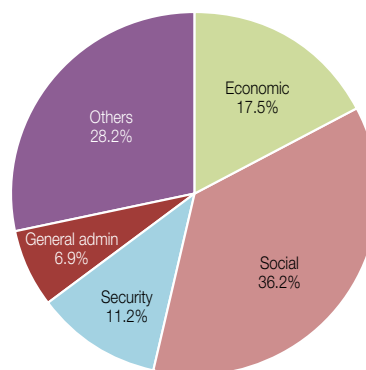
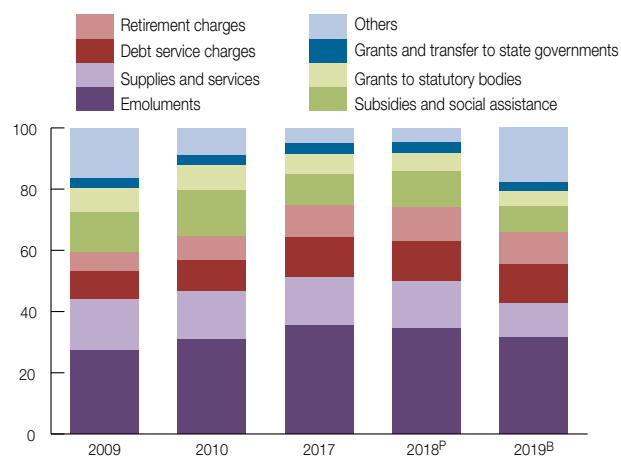
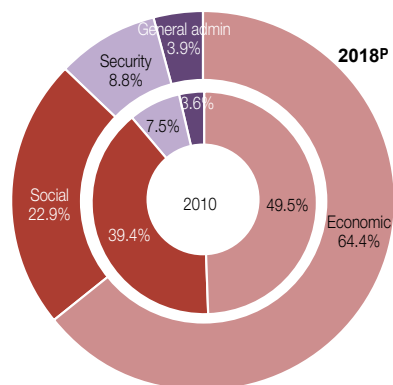
FIGURE 2: FEDERAL GOVERNMENT FISCAL POSITION**Chart 1.1: Federal Government Deficit and Primary Balance****Chart 1.2: Revenue as Percentage to GDP****Chart 1.3: Petroleum-Related and Non-Petroleum Revenue (% of total revenue)****Chart 1.4: Federal Government Spending by Sector 2018****Chart 1.5: Operating Expenditure by Object (% of total operating expenditure)****Chart 1.6: Development Expenditure by Sector 2010 vs 2018**

FIGURE 3: FEDERAL GOVERNMENT DEBT

