



MEDIA RELEASE MINISTRY OF FINANCE MALAYSIA YB TUAN LIM GUAN ENG

DESPITE THE GOVERNMENT'S TOTAL DEBT AND LIABILITIES BEING REDUCED FROM 79.3% OF GDP IN 2017 TO 75.4% IN 2018, DIRECT DEBT INCREASED FROM 50.1% OF GDP IN 2017 TO 51.2% IN 2018 BECAUSE THE PAKATAN HARAPAN GOVERNMENT REFUSED TO RESORT TO OFF-BALANCE SHEET FINANCING TO COVER-UP DUBIOUS DEBTS

Despite the Government's total debt and liabilities being reduced from 79.3% of GDP in 2017 to 75.4% in 2018, direct debt increased from 50.1% of GDP in 2017 to 51.2% in 2018 because the Pakatan Harapan government refused to resort to off-balance sheet financing to cover-up dubious debts.

Since Pakatan Harapan took over the Government in May 2018, we have carried out a comprehensive review of the Government's financial obligations, which confirmed that we had accumulated RM1.087 trillion of debt and liabilities as at the end of 2017. This figure has been confirmed by the bi-partisan Special Parliamentary Select Committee on the Budget in their report dated 17 July 2019.

A substantial portion of this figure comprises of hidden debt and liabilities that the previous Government had deceitfully kept under wraps or disguised as off-balance sheet items. This would include RM38.3 billion worth of 1MDB debt which we discovered that the then BN government was secretly servicing.

The other liabilities amounting to RM260.1 billion involved off-balance sheet government expenditure masked as "Public Private Partnership (PPP)" or "Private Finance Initiatives (PFI)". However, the financial cost, risks and obligations of these projects lie entirely with the Federal Government. Hence, the PPPs and PFIs were abused by the then BN government to give the false perception of low budget deficits, and a corresponding lower level of perceived debt.

The new Government has been praised by international rating agencies and investment analysts for the marked improvement in transparency as well as the standards of good governance. Their repeated affirmation of our sovereign ratings at A-/A3 since then, despite the increased transparency in the state of our balance sheet, demonstrates their conviction that this Government is taking concrete measures to address the weaknesses.

In fact, within a short period of time, we were successful in reducing our total debt and liabilities significantly from 79.3% of the GDP as at 31 December 2017 to 75.4% a year later. This is highlighted in **Table 1** below where we have significantly reduced our "Other Liabilities" from 19.0% to 12.8% of the GDP. We have also reduced 1MDB debt from 2.8% to 2.2% of the GDP.

Table 1: Total debt and liabilities of the Government relative to the GDP in 2017 and 2018

Components	2017	2018
Direct Deb	50.1%	51.2%
Committed government guarantees	7.4%	9.2%
1Malaysia Development Bhd (net debt)	2.8%	2.2%
Other liabilities (PPP, PFI & PBLT)	19.0%	12.8%
Total debt and liabilities	79.3%	75.4%

Direct debt rose from 50.1% of GDP in 2017 to 51.2% in 2018 to directly fund the fiscal deficit, without the Government resorting to off-balance sheet financing to cover-up dubious debts as practiced by the previous administration.

On the other hand, the committed government guarantees have increased due to projects which are already in progress, such as MRT2 and Pan-Borneo Highway via DanaInfra, and LRT3 via Prasarana. **Table 2** lists the key increases in committed government guarantees:

Table 2: Key increase in committed government guarantees (RM billion)

Bil	Committed government guarantees	2017	2018	Increase
1	DanaInfra Nasional Berhad	42.2	52.7	10.5
2	Malaysia Rail - Link Sdn Bhd (ECRL)	14.5	18.9	4.4
3	Prasarana Malaysia Sdn Bhd	26.5	31.4	4.9
4	SSER (TSGP & MPP)	2.9	7.9	5.0
5	Sentuhan Budiman Sdn Bhd (1MDB)	-	0.8	0.8
6	SRC International Sdn Bhd	-	3.6	3.6

However, cognizant of the fact that these projects will substantially increase our committed government guarantees in future years, the new Government has successfully renegotiated the cost of these mega-projects. The overall cost of LRT3 was reduced from RM31.6 billion to RM16.6 billion, the MRT2 construction cost reduced from RM39.4 billion to RM30.5 billion while the ECRL construction contract with China Communications Construction Company (CCCC) was reduced from RM66.5 billion to RM44 billion. The reduction in cost for these 3 projects alone would reduce our future committed government guarantees by at least RM46 billion compared to if all projects had continued without any rationalisation.

For SSER's TSGP and MPP projects, RM8.3 billion or 88% of the RM9.4 billion worth of engineering, procurement, construction and commissioning (EPCC) contract has been paid by SSER despite only 13% of the work has been purportedly done. To date, there is no evidence of any work done. This scandalous project has been terminated. The previous government's leaders have failed to explain why the RM8.3 billion or 88% of the contract cost has been paid when practically no work has been done.

Divestment and Recovery of Assets

The Prime Minister's Office is completely in charge of divesting various non-core and non-critical assets to rebalance the Government's portfolio and realign the role of the public sector. The proceeds from these divestments, when returned to the treasury in the form of dividends, will be allocated towards further reduction of our debt and liabilities.

Moreover, the Government is actively pursuing the recovery of assets for funds misappropriated by 1MDB globally. We have recovered approximately RM925.1 million to date, not including the sale of the mega-yacht Equanimity for RM523 million. These and future recovery proceeds will go entirely towards the repayment of 1MDB debts.

Despite these challenges inherited from the previous Government, we remain committed towards fiscal consolidation while at the same time ensuring that Malaysia remains on a sustainable growth path, despite the weak global economic environment.

Sayangi Malaysiaku!

Lim Guan Eng

Minister of Finance
Ministry of Finance Malaysia
Putrajaya
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