

SECTION 5:

FISCAL RISK AND LIABILITY

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SECTION 5: FISCAL RISK AND LIABILITY

Overview

The Government acknowledges the need to improve fiscal risk management and is committed to reduce the debt and liabilities exposure. Proactive measures have been undertaken to manage the current debt and liabilities exposure in ensuring a sound fiscal position of the Government. The measures include the disclosure of debt and liabilities exposure position beginning 2018; the establishment of the Debt Management Committee to scrutinise and endorse new government guarantees (GGs) and project financing; and introduce specific coding in the annual Federal Government Expenditure Estimates for financial commitments, particularly public private partnership (PPP) projects and transfers to government entities. In addition, the Parliament Special Select Committee on Budget has reviewed the overall Federal Government debt and liability obligations, which was affirmed in their report published in July 2019. These initiatives will further enhance monitoring and reporting to improve governance, encompassing the elements of accountability and transparency.

PPPs and GGs are common fiscal tools used by countries for public investment in order to accelerate infrastructure development and boost economic growth. However, these fiscal tools, if

not well-managed, may increase countries' fiscal risk exposure, particularly crystallisation on the governments' budget. Therefore, it is imperative to undertake a robust assessment to strike a balance between the added benefits and risks associated with these fiscal tools. In this regard, the Government remains dedicated to ensure the liabilities exposure are well-managed without affecting the financial position in the medium term.

Debt and Liabilities Exposure

Apart from the Federal Government debt, other obligations exposure of the Government are committed guarantees, 1Malaysia Development Berhad's (1MDB) debt, and other liabilities which include estimated cash commitments of PPP and private financing initiative (PFI) projects. As at end-June 2019, total Federal Government debt and liabilities exposure was estimated at RM1,170.3 billion or 77.1% of GDP. Of this, Federal Government debt comprised about 70% of the total exposure. As the Government progresses into accrual-based accounting standards and reporting, the debt and other obligations of the Government will be reflected accordingly in line with the standards and statistical treatments under the International Public Sector Accounting Standards (IPSAS) and IMF's Public Sector Debt Statistics.

Table 5.1. Federal Government Debt and Liabilities Exposure

	RM billion		Share of GDP (%)	
	2018	2019 ¹	2018	2019 ¹
Federal Government debt	741.0	799.1	51.2	52.6
Committed guarantees	132.7	157.3	9.2	10.4
1Malaysia Development Berhad	32.2	32.2	2.2	2.1
Other liabilities (PPP, PFI and PBLT)	184.9	181.7	12.8	12.0
Total	1,090.8	1,170.3	75.4	77.1

¹ End-June 2019.
Source: Ministry of Finance, Malaysia.

Information Box**Recommendations by the Parliament Special Select Committee on Budget**

In efforts to enhance and strengthen the function of the Parliamentary institution as well as to ensure checks and balances, the Special Select Committee on Budget is one of the six select committees announced in December 2018. The bipartisan Committee comprises both government and opposition Members of Parliament. The main task of the Committee is to scrutinise the Federal Budget and matters that may impact the budget execution.

In March 2019, the Committee decided to deliberate on debt and liabilities exposure position and its impact on the Government's budget. The Committee scrutinised many aspects on debt and liabilities, including PPP projects and GGs. The Committee produced a report in July 2019, reaffirming the position of debt and liabilities exposure and outlined eight recommendations for the Government to strengthen further the management and enhance the transparency of debt and liabilities exposure based on the principles of good governance, prudence and constant monitoring.

The recommendations are to:

- Present the debt and liabilities exposure position to the Parliament on a regular basis to enable the monitoring of debt repayment, interest payment and debt level.
- Report detailed commitments of GG, PPP, PFI and PBLT in the annual Budget Estimates by specific project and ministry to reflect the actual obligations of these projects.
- Review and assess the list of GGs to determine the guarantees that need to be assisted.
- Set a statutory or administrative limit on GGs.
- Introduce specific coding in the annual Budget Estimates for other financial commitments such as PPP, PFI or payments related to debt and liabilities.
- Report the actual commitment of debt service charges and its percentage of revenue in detail.
- Constantly monitor the ratio of total debt and liabilities exposure to GDP, Federal Government deficit to GDP as well as debt service charges over revenue.
- Analyse the debt level of Malaysia and peer countries, particularly in the ASEAN region and other advanced economies on a regular basis.

Source: "Hutang dan Liabiliti Kerajaan" by the Parliament Special Select Committee on Budget, 2019.

Government Guarantees

Government guarantees are issued under the Loans Guarantee (Bodies Corporate) Act 1965 [Act 96]. The entity granted with GG is liable for its obligation while the Government acts as the guarantor. Under Section 8(1) of this Act, the entity is obliged to repay to the Government the sum paid from the Consolidated Fund in respect of any liability incurred by the Government.¹ GG facilities enable entities to obtain favourable funding costs and minimise its risk exposure.

All outstanding GGs are reported annually in the Federal Government Financial Statement. As at end-June 2019, outstanding loan guarantees stood at RM273.8 billion or 18% of GDP (end-2018: RM266.5 billion; 18.4%). New disbursements under GG were mainly to finance public infrastructure projects such as the mass rapid transit (MRT), Pan Borneo Highway, light rail transit (LRT), as well as for civil servant housing loans managed by the Public Sector Home Financing Board (LPPSA). On a sectoral basis, about half of the loan guarantees were channelled to the infrastructure sector (49.2%) followed by services (24.5%), investment holding

(11.2%), utilities (10%), financial (3.6%) and plantation (1.4%). The 10 major GG recipients accounted for 81% of the total loan guarantees.

As at end-June 2019, average maturity of the outstanding loan guarantees stood at seven years. About 65% of the guarantees are expected to mature within 10 years, of which 24.7% will mature within five years and 39.8% between 6 to 10 years. Currency risk is largely mitigated as more than 90% of the guaranteed debt are in ringgit while the remaining is in renminbi, yen and US dollar.

There are several entities which are classified under **committed guarantees** as these entities currently receive allocation or have a high probability of requiring financial assistance from the Government in the future. This is mainly due to several factors, such as assistance during the construction period or at the initial stage of operation; assistance for working capital; or to partly subsidise their operations. Most of these entities are carrying out public infrastructure projects and investment activities particularly public transportation projects. These entities are granted guarantees under Act 96

Table 5.2. Major Recipients of Loan Guarantees as at end-June 2019

Entity	RM million	Share (%)	Share of GDP (%)
Total loan guarantees	273,847	100.0	18.0
<i>of which:</i>			
DanaInfra Nasional Berhad	57,820	21.1	3.8
National Higher Education Fund Corporation	40,300	14.7	2.7
Prasarana Malaysia Berhad	31,414	11.5	2.1
Public Sector Home Financing Board	20,750	7.6	1.4
Malaysia Rail Link Sdn. Bhd.	18,715	6.8	1.2
Khazanah Nasional Berhad	14,000	5.1	0.9
Pengurusan Air SPV Berhad	12,410	4.5	0.8
Projek Lebuh raya Usahasama Berhad	11,000	4.0	0.7
Suria Strategic Energy Resources Sdn. Bhd.	8,049	2.9	0.5
GovCo Holdings Berhad	7,300	2.7	0.5
Total of major recipients	221,758	81.0	14.6

Source: Ministry of Finance, Malaysia.

¹ Section 8(1) Act 96: If any sum is paid out of the Consolidated Fund in respect of any liability incurred by the Government under a guarantee under this Act the body corporate shall repay that sum (together with interest thereon at the same rate as that payable on the loan under the agreement by the body corporate with the authority from which the loan is raised) to the Consolidated Fund in such manner and at such time or by such instalments as the Minister may direct.

Table 5.3. Committed Guarantees

	RM million		Share (%)	
	2018	2019 ¹	2018	2019 ¹
DanInfra Nasional Berhad	52,740	57,820	39.7	36.7
Prasarana Malaysia Berhad	31,414	31,414	23.7	20.0
Urusharta Jamaah Sdn. Bhd.	-	20,000	-	12.7
Malaysia Rail Link Sdn. Bhd.	18,862	18,715	14.2	11.9
Suria Strategic Energy Resources Sdn. Bhd.	7,925	8,049	6.0	5.1
GovCo Holdings Berhad	7,300	7,300	5.5	4.6
Jambatan Kedua Sdn. Bhd.	5,751	5,679	4.3	3.6
MKD Kencana Sdn. Bhd.	3,500	3,500	2.6	2.2
SRC International Sdn. Bhd.	3,600	3,400	2.7	2.2
Sentuhan Budiman Sdn. Bhd.	800	800	0.6	0.5
TRX City Sdn. Bhd.	485	429	0.4	0.3
Asset Global Network Sdn. Bhd.	228	203	0.2	0.1
K.L. International Airport Berhad	94	40	0.1	0.0
Total	132,699	157,349	100.0	100.0

¹ End-June 2019.

Source: Ministry of Finance, Malaysia.

or undertakings bound under the Section 14 of the Financial Procedure Act 1957 [Act 61].² As at end-June 2019, committed guarantees are estimated at RM157.3 billion or 10.4% of GDP. The financial performance of the companies listed under committed guarantees will be monitored closely and aided with a recovery plan to ensure the risk exposure to the Government will be reduced and gradually minimised.

1Malaysia Development Berhad

1Malaysia Development Berhad (1MDB) was established in 2009 under the Minister of Finance (Incorporation) Act 1957 initially to carry out national strategic development initiatives. However, based on the Parliament's Public Accounts Committee Report, due to mismanagement and poor governance, the Government has to assume 1MDB's entire obligations, including debt principal of RM32.2 billion. As at end-June 2019, the Government has extended advance of RM8.9 billion to 1MDB for debt servicing.

The Government is also in pursue of recovering several assets related to 1MDB's financial trail. The recovery process of these assets is expected to take some time as most of the assets are currently located abroad such as in Singapore, Switzerland and in the US as

Table 5.4. Components of 1MDB's Debt

	Rate	Maturity	Principal	
	(%)		(USD million)	(RM million)
Government Guarantee				
Sukuk	5.75	2039	-	5,000
IPIC-MOF Inc.				
1MDB Energy Ltd	5.99	2022	1,750	7,320 ¹
1MDB Energy (Langat)	5.75	2022	1,750	7,320 ¹
Letter of Support				
Global bond	4.44	2023	3,000	12,550 ¹
Total			32,190	

¹ Exchange rate as at end-June 2019: RM/USD = 4.1829.

Source: Ministry of Finance, Malaysia.

² Section 14(1) Act 61: No guarantee involving a financial liability shall be binding upon the Federal Government, unless it is entered into with the written authority of the Treasury or in accordance with federal law.

well as subjected to legal requirements and negotiations with the countries. As at end-June 2019, the Government has received about RM920 million from the recovered assets, which will be utilised to serve 1MDB's debt obligations.

Other Liabilities

The PPP initiative plays an important role in ensuring a more efficient development and operation of public infrastructure investment. In efforts to enhance the PPP policy and governance structure, currently there are no additional financial obligations as the Government is reviewing and consolidating the policy design of a new approach. As at end-June 2019, outstanding PPP cash commitments are estimated at RM130.6 billion (end-2018: RM135.1 billion) based on the existing 100 projects. The Government has allocated about RM9 billion in 2019 to serve the commitments. These commitments comprise availability, maintenance and asset replacement charges as well as volume-based service payments of contracts up to 2047.

The PFI was first introduced during the Ninth Malaysian Plan as part of the strategies to accelerate infrastructure and utility development. PFI projects include construction, upgrading and maintenance of schools, public utilities and low-cost housing as well as entrepreneurship and

skills development programmes. The liabilities in relation to PFI projects are estimated at RM45.9 billion as at end-June 2019.

In efforts to improve the facilities and living standards of the Royal Malaysia Police (PDRM) personnel, PBLT Sdn. Bhd. was set up in 2005 to undertake financing and construction of infrastructure and training facilities as well as quarters for PDRM. As at end-June 2019, the Government's obligations are estimated at RM5.2 billion.

Conclusion

The Government will continue to report a comprehensive position of debt and liabilities exposure to enhance monitoring and transparency. In addition, the Parliament Special Select Committee on Budget has also proposed their recommendations, of which the Government is currently in the process of reviewing the suggestions. Going forward, by adopting the accrual accounting and Government Finance Statistics Manual (GFSM) 2014, the Government will be able to provide holistic and comprehensive information on the Government's financial performance, including both assets and liabilities. With the establishment of the Debt Management Committee, the Government will also be able to enhance fiscal risk management framework, thus ensuring fiscal discipline and good governance.

Figure 5.1. Outstanding Loan Guarantees

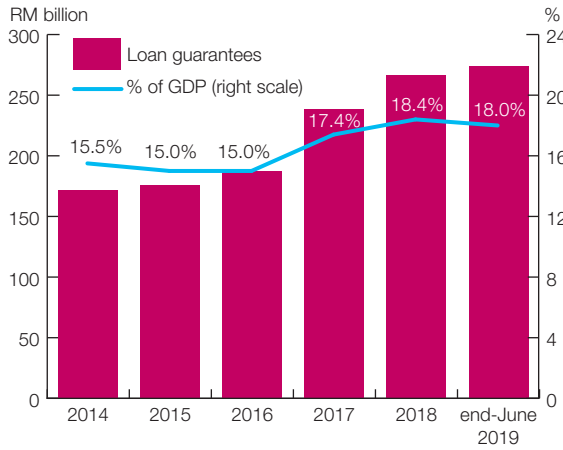


Figure 5.2. Loan Guarantees by Sector (End-June 2019)

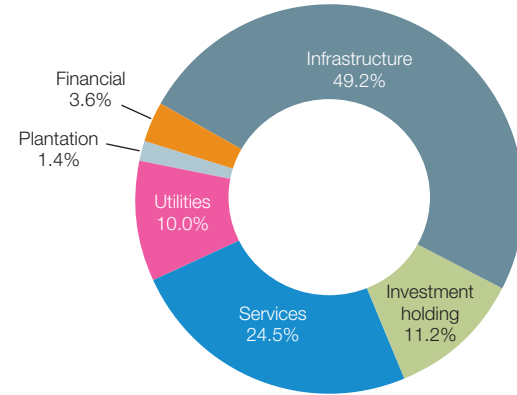


Figure 5.3. Maturity Profile of Loan Guarantees (End-June 2019)

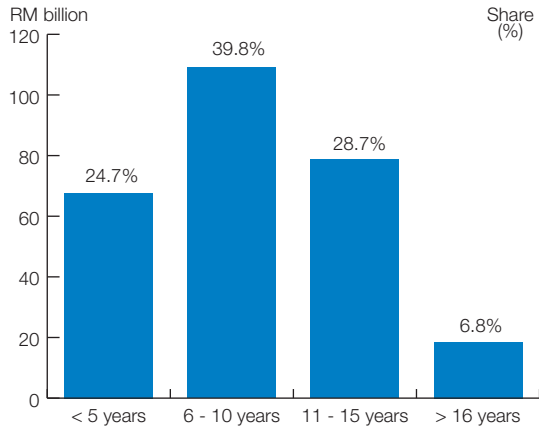
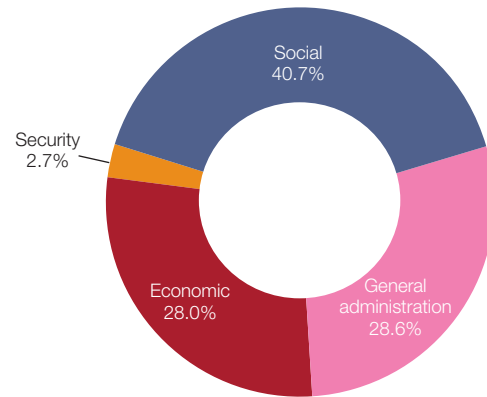


Figure 5.4. Outstanding PPP Obligations by Sector (End-June 2019)



Source: Ministry of Finance, Malaysia.