SECTION 1

Fiscal Policy Overview

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Overview

The global economy is expected to stabilise as nations worldwide navigate the economic complexities of the post-pandemic period, with the services sector and higher exports leading the growth. Meanwhile, inflationary pressures and the potential for prolonged elevated interest rate risks have dissipated, thus improving the growth outlook. On the contrary, escalating geopolitical conflicts, ongoing trade fragmentation, and elevating sovereign debt continue to pose risks to growth. These situations amplify the role of fiscal policy in balancing the need for necessary spending to sustain growth, while pursuing debt consolidation. Hence, prudent fiscal management is imperative to ensure fiscal sustainability in achieving the development agenda.

Despite prevailing global uncertainties, Malaysia's economy is expected to remain robust in 2024, driven by resilient domestic demand and rebounding trade activities in the manufacturing and construction sectors. In this context, the Ekonomi MADANI framework provides clarity in charting Malaysia's economic growth trajectory. The implementation of the framework has the potential to significantly boost the economy over the next decade and enhance the socioeconomic status of the rakyat. The framework also serves as the foundation and guiding principle to key strategic policy documents, namely the National Energy Transition Roadmap (NETR), the New Industrial Master Plan 2030 (NIMP 2030) and the Mid-Term Review of the Twelfth Malaysia Plan. In addition, the Government has launched the Government-Linked Enterprises Activation and Reform Programme (GEAR-uP) and the Public-Private Partnership Master Plan 2030 (PIKAS 2030) to accelerate domestic investment as well as improve project management and governance, thus contributing to national development objectives.

Against this backdrop, the Government is able to implement fiscal reform measures to rebuild the fiscal buffer, while bolstering nation-building initiatives. Proactive structural fiscal reform is crucial to enhance the ability to withstand and mitigate risks and uncertainties. The enactment of the Public Finance and Fiscal Responsibility Act 2023 [Act 850] is a landmark initiative, signifying the Government's determination to foster good governance, accountability, and transparency in managing public finances.

During the year, the Government has executed various measures to strengthen revenue generation capacity as well as manage expenditure growth. Notably, revenue enhancement measures that have been implemented include the revision of the service tax rate, the introduction of e-Invoice, and the amendment of legislation to adopt the Global Minimum Tax which will be effective in 2025. In pursuing expenditure reform, the Government has begun transitioning from blanket subsidies to a more targeted mechanism, particularly through the rationalisation of eletricity subsidy and targeted diesel subsidy. Savings from these expenditure optimisation efforts are being rechannelled to the rakyat through enhanced cash transfer programmes, educational scholarships and *Bantuan Awal Persekolahan*. These efforts indicate the Government's ongoing commitment to maintain fiscal consolidation trajectory towards rebuilding fiscal space and enhancing sustainability.

Balancing the Nation's Development Needs with Fiscal Sustainability

The Government recognises the need to gradually unwind the substantial fiscal support rolled out during the pandemic, while ensuring adequate resources are deployed to maintain the growth trajectory. Consequently, in shaping the medium- and long-term strategy, the Government needs to consider key challenges, among others, income inequality, ageing population, climate change, and business competitiveness. Furthermore, continued reliance on income taxes, coupled with high locked-in expenditure items, has restricted fiscal flexibility. Hence, rebuilding fiscal buffer is crucial in strengthening economic resilience and enabling the Government to implement counter-cyclical measures. The formulation of fiscal policy will be guided by the principles of accountability, responsibility, transparency and intergenerational equity as emphasised in Act 850. Two medium-term targets have been set under Act 850, which are reducing the fiscal deficit to 3% of GDP and ensuring the ratio of debt-to-GDP does not exceed 60%.

One of the key priorities to achieve the target is by ensuring sustainable revenue generation, focusing on diversifying revenue sources by widening the tax base. In addition, the revenue enhancement measures are also supported by the formulation of the Medium-Term Revenue Strategy (MTRS) which outlines the implementation stages of revenue measures, the review of tax legislation and the modernisation of revenue administration. Furthermore, the current tax system are continuously reviewed to make it more equitable, efficient and conducive to economic growth.

The Government consistently measures the impact of the public expenditure policy to ensure spending efficiency and optimise resources for high-impact areas. Among the key expenditure measures include the implementation of targeted subsidies, vital for reducing leakages and wastages, while safeguarding the welfare of vulnerable groups. Moreover, the introduction of the Public Service Remuneration System (SSPA) aims to enhance the quality of public service delivery and increase productivity. Furthermore, the Government has established a special committee to rationalise the roles and functions of statutory bodies, thereby minimising duplication and redundancies. It is crucial to maintain a balance between efficient expenditure and enhanced revenue generation to achieve long-term fiscal sustainability.

These initiatives aim to create ample fiscal space, enabling the Government to finance development projects without excessive borrowing towards achieving a prudent debt level, in line with the medium-term target as stipulated under Act 850. Furthermore, the enhanced public-private partnership (PPP) framework, as outlined under the PIKAS 2030, emphasises on user-pay mechanism and alternative financing method without significant reliance on the Government's funding, thereby addressing fiscal challenges. Meanwhile, a comprehensive fiscal risk management initiative will further improve risk assessment by mitigating exposures associated with debt and liabilities. Hence, the roll-out of strategic infrastructure projects and programmes, such as the East Coast Rail Link (ECRL), Pan Borneo Highway and Rapid Transit System Link (RTS Link), which are expected to yield long-term economic returns, will take into consideration the impact on fiscal sustainability and affordability. The adoption of the fiscal risk framework will complement the existing fiscal tools, such as medium-term fiscal framework and debt sustainability analysis to strengthen further public finance management.

In terms of sovereign credit rating assessments, Malaysia has been reaffirmed at A3 by Moody's Investors Service, A- by S&P Global Ratings and BBB+ by Fitch Ratings, with a 'Stable' outlook. Malaysia's key rating strengths include a diversified economy, resilient growth, stable institutions, a robust banking system, as well as low exposure to foreign currency-denominated government debt. Furthermore, political stability has enabled the adoption of fiscal reform, which in turn, will contribute to medium- and long-term stability and improve Malaysia's credit rating standings, thus enhancing investor confidence.

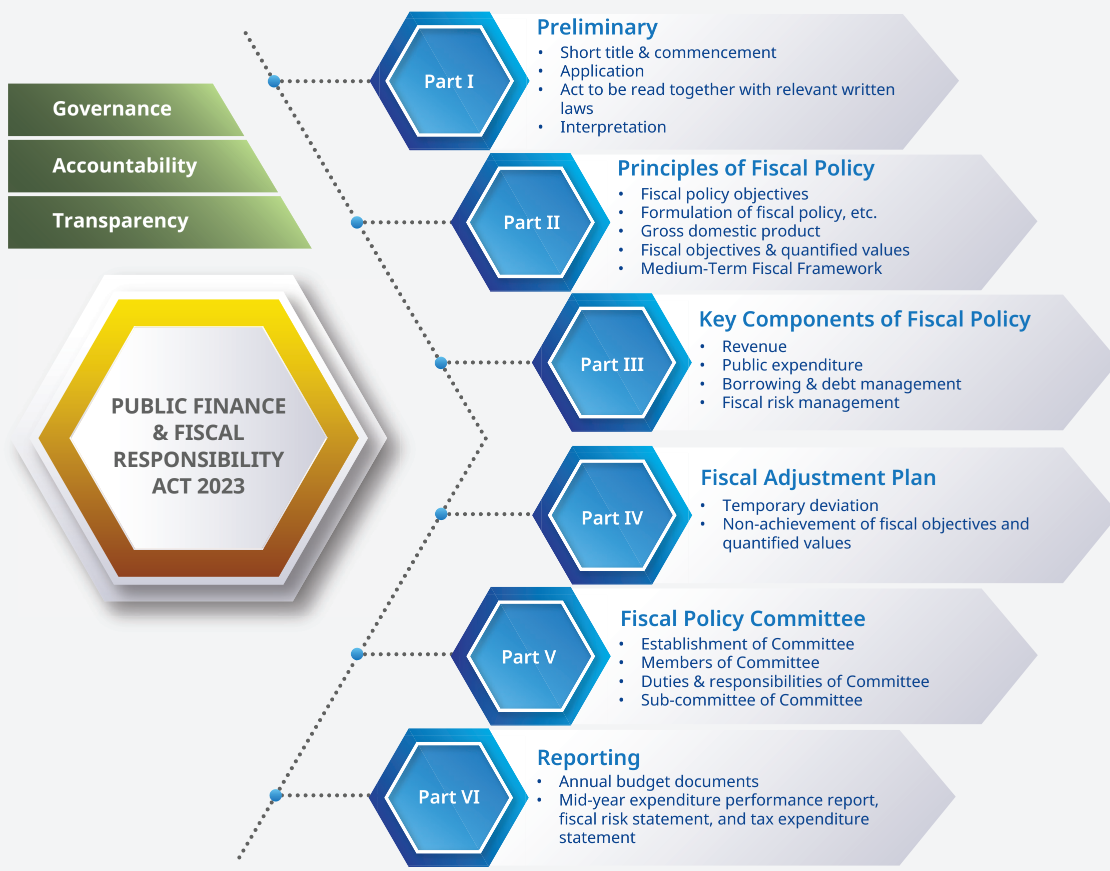
FEATURE ARTICLE

Public Finance and Fiscal Responsibility Act 2023 [Act 850] – Improving Fiscal Governance and Discipline in the Medium Term

Introduction

The enactment of the Public Finance and Fiscal Responsibility Act 2023 [Act 850] marks a pivotal moment in Malaysia's journey towards enhancing fiscal discipline and preserving macroeconomic stability. Act 850 provides guidance and clarity in fiscal policy formulation, aimed at strengthening Federal Government finances in the medium- and long-term, while ensuring a comprehensive approach to public finance management. The Act came into force on 1 January 2024[1] to improve fiscal governance, accountability, and transparency. The Act is aligned and coherent with the existing legal framework for fiscal management. Act 850 necessitates the Government to broaden

FIGURE 1. *Features of Public Finance and Fiscal Responsibility Act 2023 [Act 850]*



[1] The gazetted date of the legislation according to P.U.(B) 584/2023, with the exclusion of Sections 37 and 38. The exclusions are for the publication of new fiscal reports, namely the fiscal risk statement and tax expenditure statement, which are expected to be published in the future.

revenue base, optimise public expenditure, manage debt levels, while emphasising the importance of fiscal risk management. In this regard, fiscal reform initiatives are imperative towards ensuring fiscal sustainability, rebuilding fiscal space and promoting sustainable growth, in line with the aspiration of the Ekonomi MADANI framework.

Key Highlights of the Act

Act 850 is one of the reform initiatives to strengthen public finances through the enhancement of fiscal discipline, spending effectiveness, and transparency. The ground-breaking aspects represent significant steps towards enhancing fiscal governance and strengthening public finance management. Among the highlights are:

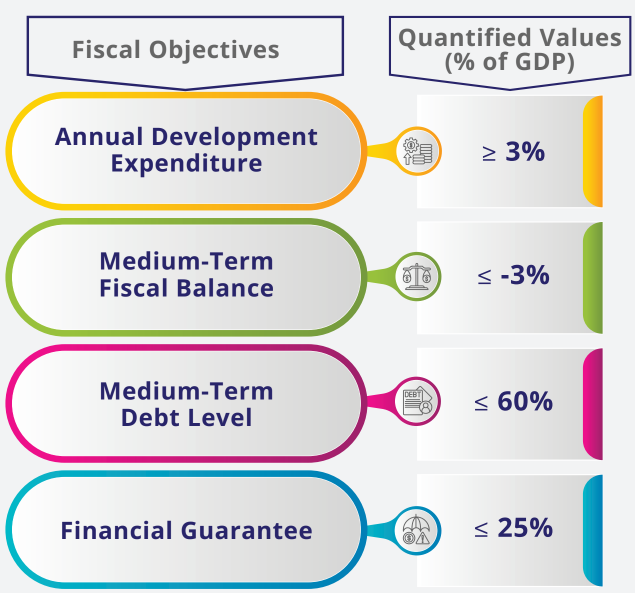
a) **Greater Accountability of the Minister of Finance**

The Minister of Finance (the Minister) is responsible to formulate and implement sound fiscal policies that promote economic stability and growth, maintain fiscal discipline by adhering to budgetary limits as well as ensure transparency and accountability in government fiscal operations. In addition, the Minister is required to provide periodical reports on the public finance performance, propose measures to address fiscal imbalances, oversee prudent public debt management, and assess fiscal risk exposure.

b) **Clear Fiscal Targets**

Act 850 establishes clear numerical fiscal targets to ensure accountability and discipline in managing public finance. These targets are also expected to anchor investor confidence, foster public trust, and promote sustainable economic growth. Figure 2 illustrates the quantified values of the fiscal objectives the Government aims to achieve, as specified in the First Schedule of the Act.

FIGURE 2. *Fiscal Objectives and Quantified Values*



c) **Intergenerational Equity**

The Act safeguards the well-being of current and future generations. In this regard, the Government shall strategically reduce the budget deficit and stabilise the public debt level by managing revenue, expenditure, debt, and fiscal risk. Therefore, policy decisions must take into consideration the impact on public finances to ensure intergenerational equity is protected.

d) **Comprehensive Reporting**

Act 850 mandates the publication of annual budget documents and other reports to enhance transparency and accountability. The Ministry of Finance (MoF) has published the Economic Outlook; Fiscal Outlook and Federal Government Revenue Estimates; Estimated Federal Expenditure; and Mid-Year Budget Performance Report. These publications can be accessed through the MoF's official website (https://www.mof.gov.my).

Two new reports, namely the fiscal risk statement (FRS) and the tax expenditure statement (TES) are also required to be published under the Act. The FRS will provide a comprehensive analysis of potential fiscal risks and a mitigation plan to ensure effective risk management. Meanwhile, the TES assesses revenue forgone arising from changes of tax policies, including tax reliefs and exemptions. Efforts are in place in building the capacity towards publishing these two documents.

Additionally, although it is not required under the Act, the MoF also publishes the Pre-Budget Statement. This document highlights the direction and focus of the annual budget as part of the efforts to improve the annual budget preparation process. This is consistent with international best practices to increase transparency in drafting the annual budget.

e) **Fiscal Risk Management**

Provision pertaining to comprehensive fiscal risk management was introduced for the first time, which includes a unified interpretation of financial guarantee along with its statutory limit. The Government is now required to formulate a fiscal risk management policy to minimise and mitigate risk exposure. The fiscal risk provisions under the Act complement the existing fiscal legislation to strengthen public finance management. By identifying fiscal risk, the Government will be able to mitigate more effectively unanticipated fiscal pressures resulting from unforeseen circumstances or crises.

f) **Fiscal Policy Committee**

The Fiscal Policy Committee (FPC) is now institutionalised under Act 850 to oversee fiscal matters and propose policies to the Government. The Committee is chaired by the YAB Prime Minister and composed of Deputy Prime Ministers, selected Cabinet ministers, the Chief Secretary to the Government, and heads of key central agencies. The Act also allows the appointment of up to two reputable members with expertise in fiscal or public finance. In addition, the FPC may establish a sub-committee to assess the Government's indebtedness as well as exposures to fiscal risk and other liabilities. The establishment of a sub-committee known as the Fiscal Risk, Debt, and Liability Committee was endorsed by the FPC in March 2024 to fulfil the requirements under the Act.

g) **Temporary Deviation from Fiscal Objectives**

The Act also includes flexibility to allow temporary deviation from fiscal targets during sudden and unpredictable events through a detailed fiscal adjustment plan to be tabled to the Parliament. This plan must outline the reasons for the deviation, measures to revert to the original objectives, the expected time frame, and other relevant information to ensure transparency and accountability. This feature allows the Government to execute necessary and urgent actions in the event of an economic crisis, pandemic or any other unexpected circumstances that will affect macroeconomic stability, business continuity and well-being of the rakyat.

Fiscal Objectives and Quantified Values

Act 850 sets fiscal objectives and quantified values consisting of both annual and medium-term targets, fulfilling the requirements outlined in the Act. These targets provide a structured approach to fiscal management, ensuring short-term targets are aligned with long-term objectives.

a) **Annual Development Expenditure**

The Government consistently ensures development expenditure (DE) is spent for programmes and projects with a high multiplier impact on the economy towards preserving macroeconomic stability, promoting nation building and safeguarding the well-being of the rakyat. In this regard, the annual DE target is set at a minimum of 3% of GDP. Since 1961, Malaysia's DE as a percentage of GDP has always exceeded 3%, with an annual average of 3.9% over the past 10 years (2014 – 2023). In the Twelfth Malaysia Plan, 2021 – 2025, the annual average of DE is estimated at 4.4% of GDP.

b) **Medium-Term Fiscal Balance**

The fiscal balance target is aimed at enhancing financial discipline, consistent with the Government's commitment to reduce the deficit to 3% in the medium term without compromising the growth momentum, in line with the Ekonomi MADANI framework. In 2019, the Government's fiscal deficit was 3.4% of GDP. During the COVID-19 pandemic, the deficit level peaked at 6.4% in 2021, the highest since 2009, due to the implementation of economic stimulus packages and recovery plans. Nevertheless, as the effects of the pandemic subsided, the fiscal deficit improved to 5.5% and 5% in 2022 and 2023, respectively. In the medium term, the fiscal reform initiatives will be pursued to support the consolidation trajectory and rebuild fiscal space while ensuring sustainable economic growth and realising the development agenda.

c) **Medium-Term Debt Level**

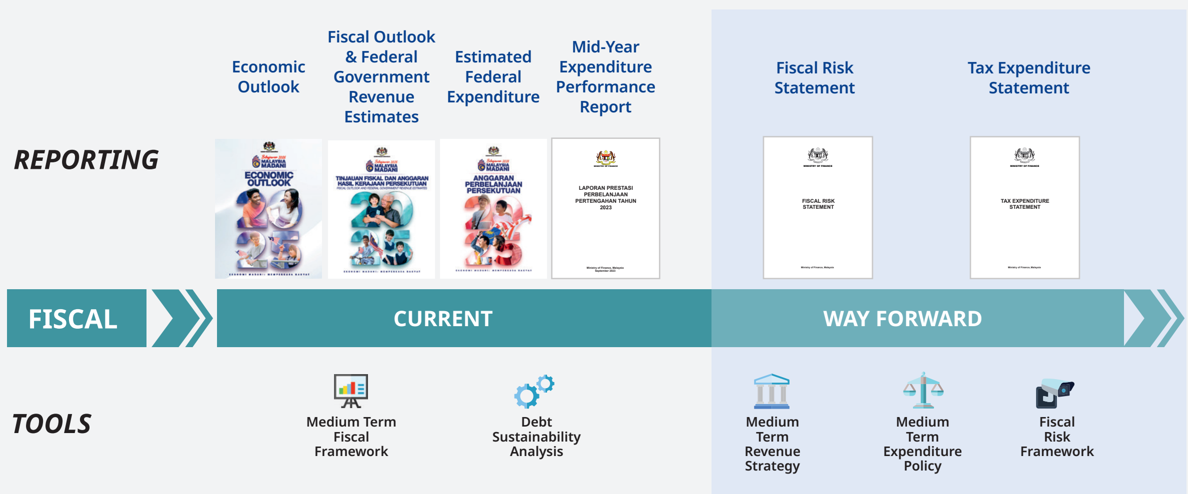
During the COVID-19 pandemic, the Government increased the statutory debt limit from 55% to 65% of GDP. While the increase in the debt limit provided fiscal flexibility to fund economic stimulus packages and recovery plans, it has resulted in higher debt service charges, thus impacting debt sustainability and affordability. Therefore, the Government aims to reduce the debt-to-GDP ratio to 60% in the medium term by having an effective debt management strategy, coupled with continued implementation of revenue and expenditure reforms.

d) **Financial Guarantee**

The Government will continue to monitor and report the debt and liability exposure to enhance monitoring and transparency. In addition, there is a need to manage the fiscal exposure, particularly risks arising from government guarantees, which may subsequently increase the Federal Government's liability. Thus, for the first time, the Government has set quantitative values for financial guarantees not exceeding 25% of GDP to control the risk exposure and support fiscal consolidation efforts. As of June 2024, the financial guarantee stood at 20.9% of GDP, which is still below the threshold, as compared to 25.1% in 2020.

Moving forward, the formulation of the medium-term revenue strategy, medium-term public expenditure policy, and fiscal risk framework will ensure the effective implementation of Act 850, thereby promoting fiscal discipline and accountability in public finance management. These reform initiatives will complement the existing tools adopted by the Government, namely the Medium-Term Fiscal Framework and Debt Sustainability Analysis in creating sustainable fiscal space and enhancing the resilience of public finances. Figure 3 illustrates the current status and way forward for fiscal reporting and tools in Federal Government's public finance management.

FIGURE 3. *Current Status and Way Forward for Fiscal Reporting and Tools*



Conclusion

The Public Finance and Fiscal Responsibility Act 2023 [Act 850] will further enhance governance, accountability and transparency in managing public funds. By aligning new and existing fiscal rules and setting clear targets with flexible mechanisms, Act 850 provides a resilient and coherent framework for fiscal management. This Act complements the national reforms agenda and supports the initiatives under the Ekonomi MADANI framework by intensifying clarity on fiscal policies, enhancing fiscal space, promoting sustainable economic growth, as well as anchoring investor confidence.

Fiscal Position in 2024

The strong economic performance in the first half of the year is expected to continue in the second half of 2024, supported by the sustained private consumption and recovery in external trade. Fiscal spending is projected to be higher due to additional allocation related to the RON95 subsidy as well as the phased implementation of the SSPA. Nevertheless, this was cushioned by encouraging revenue collection, particularly from indirect taxes, which has surpassed expectations, coupled with spending control measures. Thus, no additional borrowing requirement is projected for the year, as the fiscal deficit remain within the target.

The Government estimates total revenue to increase by 4.7% to RM322.1 billion or 16.5% of GDP, compared to the initial estimate of RM307.6 billion. Several revenue enhancement measures announced in the Budget 2024 include increasing the service tax rate from 6% to 8%, introducing capital gains tax on net gain from the disposal of local companies' unlisted shares, and strengthening the tax administration and governance framework.

Additionally, non-tax revenue is projected to increase, bolstered by one-off revenues, which include proceeds from the disposal of land and asset recovery measures.

The total expenditure for 2024 remains significant, reflecting the Government's commitment to supporting economic growth and social welfare. The Government expenditure projection was revised upward by 3.5% to RM407.5 billion, compared with the initial estimate of RM393.8 billion. Operating expenditure (OE) is estimated to increase by 5.8% or RM17.7 billion due to higher subsidies and social assistance, emoluments, retirement charges as well as debt service charges. Savings from the subsidy reform initiatives, particularly chicken, electricity, and diesel, have been redirected to the rakyat through enhanced cash assistance programmes, including BUDI MADANI. In addition, to improve prudent spending, measures such as guidelines and circulars for public expenditure control and procurement for ICT projects have been implemented to contain expenditure growth. Meanwhile, development expenditure (DE) is expected to decrease to RM86 billion or 4.4% of GDP, taking into account the progress of programmes and

TABLE 1.1. *Federal Government Financial Position, 2023 – 2025*

	RM MILLION			CHANGE (%)			SHARE OF GDP (%)		
	2023	**2024[2]**	**2025[3]**	**2023**	**2024[2]**	**2025[3]**	**2023**	**2024[2]**	**2025[3]**
Revenue	314,959	322,050	339,706	*7.0*	*2.3*	*5.5*	*17.3*	*16.5*	*16.3*
Operating expenditure	311,267	321,500	335,000	*6.3*	*3.3*	*4.2*	*17.1*	*16.5*	*16.1*
Current balance	**3,692**	**550**	**4,706**				***0.2***	***0.0***	***0.2***
Gross development expenditure	96,091	86,000	86,000	*34.3*	*-10.5*	*0.0*	*5.3*	*4.4*	*4.1*
Less: Loan recovery	1,007	1,154	1,321	*-28.4*	*14.6*	*14.5*	*0.1*	*0.1*	*0.1*
Net development expenditure	95,084	84,846	84,679	*35.5*	*-10.8*	*-0.2*	*5.2*	*4.3*	*4.0*
Overall balance	**-91,392**	**-84,296**	**-79,973**				***-5.0***	***-4.3***	***-3.8***
Primary balance[1]	**-45,061**	**-33,496**	**-25,273**				***-2.5***	***-1.7***	***-1.2***

[1] Excluding debt service charges
[2] Revised estimates
[3] Budget estimate, excluding Budget 2025 measures
Source: Ministry of Finance, Malaysia

projects under the Twelfth Malaysia Plan, 2021 – 2025. However, DE spending remains above the statutory limit of 3% of GDP, as stipulated under Act 850.

Overall, the increase in expenditure will be cushioned by projected higher revenue collection. In this regard, the fiscal deficit is expected to remain at 4.3% of GDP, as initially targeted in the Budget 2024. The primary balance, after excluding debt service charges, is anticipated to consolidate further to record a deficit of 1.7% of GDP.

Outlook for 2025

Malaysia, as an open trading nation, is envisaged to maintain its growth momentum in 2025, in tandem with the resilient global economy. The Federal Government's revenue collection is projected to grow by 5.5% to RM339.7 billion or 16.3% of GDP, driven by an increase in direct tax collection by 6.6%, amounting to RM188.8 billion as well as a 9.8% increase in indirect tax, totalling RM70.2 billion. This is supported by sustained economic growth and higher corporate earnings, coupled with the phased roll-out of the e-Invoice as well as full-year implementation of the higher service tax rate and anticipated higher consumer spending. Meanwhile, non-tax revenue is projected to decrease slightly to RM80.7 billion on account of lower proceeds from investment income. However, the dividend from PETRONAS is expected to remain at RM32 billion.

Total expenditure in 2025 is projected to be higher at RM421 billion or 20.2% of GDP, primarily due to higher emoluments and retirement charges, resulting from the implementation of the SSPA, as well as an increase in debt service charges. The OE is expected to amount to RM335 billion, equivalent to 16.1% of GDP, while DE is projected to sustain at RM86 billion, or 4.1% of GDP. The Government will pursue subsidy rationalisation initiatives to address leakages and wastages, while enhancing the social assistance programmes. In addition, expenditure optimisation efforts will be further intensified, including the initiative to rationalise statutory bodies aimed at eliminating overlapping functions, thereby ensuring efficient spending and maximising outcomes. Meanwhile, DE will primarily focus on the economic sector with the bulk allocated for financing infrastructure projects towards generating economic activities and promoting the quality of life. This includes the construction of flood mitigation projects, water distribution projects and highways as well as improvement of health facilities and educational institutions.

The fiscal deficit is targeted to reduce further to 3.8% of GDP in 2025, reflecting the Government's ongoing commitment to fiscal consolidation. This reduction will provide ample fiscal space to cushion the impact of global uncertainties and alleviate debt burden over the long term. Meanwhile, the primary balance is forecast to record a lower deficit of 1.2% of GDP. This prudent fiscal approach aims to boost economic resilience, thereby advancing sustainable growth and development while enabling the Government to effectively manage its risk exposure.

Medium-Term Fiscal Framework (MTFF) 2025 – 2027

The Government has adopted the Medium-Term Fiscal Framework (MTFF) as a tool for medium-term fiscal planning. The Framework outlines the projections for revenue and expenditure based on the latest macroeconomic assumptions for the period of 2025 – 2027. In this respect, underlying assumptions of the MTFF include real GDP growth and crude oil prices averaging at 4.9% and USD80 per barrel, respectively, coupled with stable crude oil production of 500,000 barrels per day. Additionally, several policy measures and reform initiatives, including broadening the tax base and rationalising expenditure, have been integrated into the Framework.

In the medium term, total revenue is forecast at RM1,055 billion, or 15.7% of GDP, with non-petroleum revenue expected to remain the primary contributor, accounting for RM901.3 billion, or 13.4% of GDP. In addition, petroleum-related revenue is projected at RM153.7 billion, or 2.3% of GDP. On the expenditure side, the total indicative ceiling is forecast at RM1,289.3 billion, or 19.2% of GDP, with RM1,043.3 billion, or 15.6% of GDP allocated for OE and DE at RM246 billion or 3.7% of GDP. The fiscal deficit is projected to average at 3.5% of GDP over the three-year period.

TABLE 1.2. *Medium-Term Fiscal Framework (MTFF), 2025 – 2027*

	RM BILLION	% OF GDP
Revenue	1,055.0	*15.7*
Non-petroleum	901.3	*13.4*
Petroleum-related	153.7	*2.3*
Operating expenditure	1,043.3	*15.6*
Current balance	**11.7**	***0.1***
Gross development expenditure	246.0	*3.7*
Less: Loan recovery	3.7	*0.1*
Net development expenditure	242.3	*3.6*
Overall balance	**-230.6**	***-3.5***
Primary balance	**-53.7**	***-0.8***
Underlying assumptions:		
Average real GDP growth (%)	4.9	
Average nominal GDP growth (%)	7.2	
Average crude oil price (USD per barrel)	80	
Average oil production (barrels per day)	500,000	

Note: MTFF estimates, excluding Budget 2025 measures
Source: Ministry of Finance, Malaysia

Conclusion

The Ekonomi MADANI framework has outlined key priorities of the Government over the medium term in elevating the nation's economic competitiveness as well as enhancing inclusivity and equality. The Framework also emphasises the need for a credible fiscal framework, coupled with well-designed policy initiatives, to boost the medium-term growth potential. In this regard, the fiscal policy will focus on sustaining the growth momentum while adhering to fiscal prudence, through a more targeted spending and sustainable revenue enhancement measures. Despite global uncertainties, the Government will continue providing adequate resources to support vibrant business climate, fostering new economic opportunities and safeguarding the well-being of the rakyat. Moving forward, the Government remains committed to strengthening public finance by consolidating the fiscal deficit level to not more than 3% of GDP in the medium term, in line with the targets set under the Ekonomi MADANI framework and Act 850.

FEATURE ARTICLE

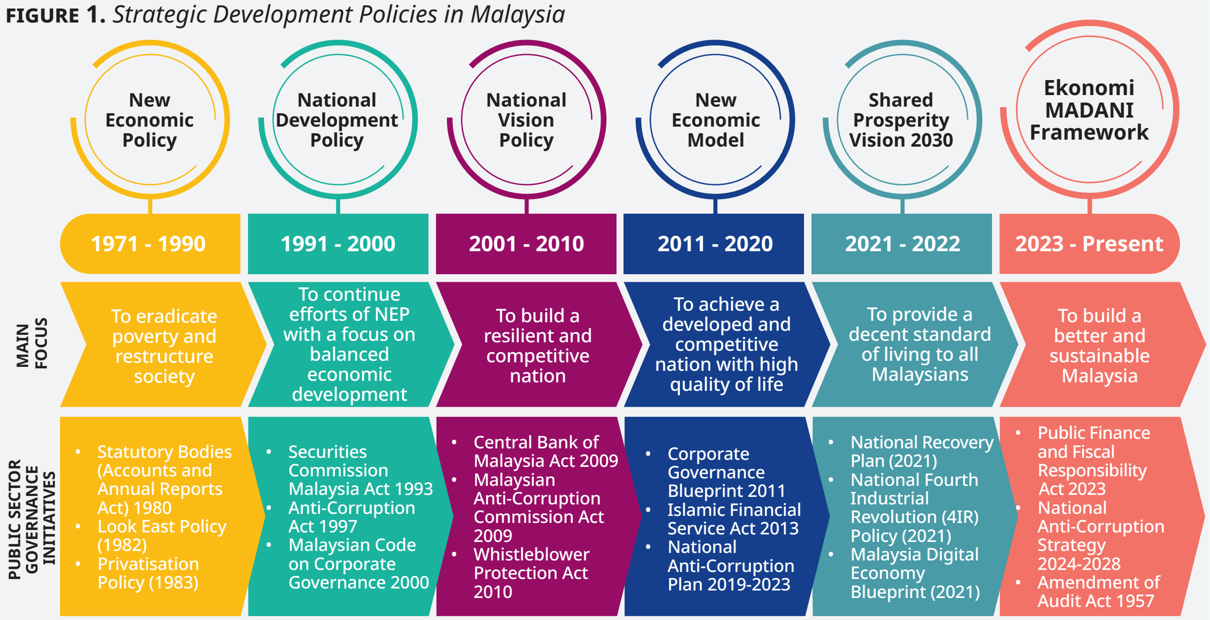
Strengthening Public Sector Governance Reforms

Introduction

Malaysia's journey since independence showcases the nation's resilience, dynamism and commitment to progress. The nation has undergone significant economic transformation, shifting from an agricultural- and commodity-based economy to a robust manufacturing and services sector. This transition has contributed towards sound economic growth and positioned Malaysia as a preferred investment destination. This proves the successful policy implemented by the Government, thus placing the country on the right track towards becoming an advanced and competitive nation, envisioned under the Ekonomi MADANI framework.

The principles of good governance and efficient public sector delivery continue to be the key elements to effectively implement development policy agenda. Organisation for Economic Co-operation and Development (OECD) (2009) defines governance as the use of political, economic and administrative authority and the exercise of control within a society to effectively manage resources in promoting social and economic development. Good governance as noted by World Bank (1992), pertains to the manner in which power is employed in managing a nation's economic and social assets with the aim of realising sustainable development.

FIGURE 1. *Strategic Development Policies in Malaysia*



Source: Prime Minister's Department and Ministry of Finance, Malaysia

In Malaysia, various strategic development policies have been formulated as depicted in Figure 1, which are generally influenced by the needs of the rakyat and the private sector; events of financial and economic crises; and efforts to align with international best practices. In each strategic plan, the Government enacted and enhanced several laws and guidelines to improve governance in all dimensions by establishing clear rules, responsibilities and processes.

Ekonomi MADANI Framework

In 2023, the Government unveiled the Malaysia MADANI aspiration with the vision of building a better Malaysia, anchored by six thrusts consisting of Sustainability (ke***M***ampanan), Prosperity (*kesej**A**hteraan*), Innovation (***D****aya cipta*), Respect (*horm**A**t*), Trust (*keyaki**N**an*) and Compassion (***I****hsan*). The Malaysia MADANI aspiration is complemented by the Ekonomi MADANI framework which consists of two main thrusts, namely, 'Raise the Ceiling' to strengthen the economy and grow the wealth of the nation; and secondly 'Raise the Floor' to ensure quality and equitable benefits for all. In order to succeed, the whole-of-nation approach which embraces the spirit of unity and good governance, supported by an agile and collaborative public delivery system needs to be adopted. The Framework outlines seven targets to be achieved over the next 10 years, as illustrated in Figure 2.

FIGURE 2. *The Ekonomi MADANI Framework's Seven Targets*

Source: Prime Minister's Office of Malaysia

Review of Malaysia's Current Performance

The overarching goal of the Ekonomi MADANI framework is to build a better and sustainable Malaysia. Therefore, various measures are being undertaken under the Framework, among others, to enhance governance, improve public finance management and strengthen the business competitiveness. The current progress of the selected targets is as follows:

a) Economic and Fiscal Perspective

Malaysia posted robust economic performance amid challenging external conditions, expanding by 5.1% in the first half of 2024 compared to 4.1% during the same period of 2023. Concurrently, inflation remains manageable reflecting price pressures continue to be contained. Meanwhile, on the fiscal front, the Government is committed to pursuing the consolidation path which will be further supported through fiscal reform initiatives by broadening the revenue base, optimising expenditure management, reducing risk exposure and enhancing fiscal governance. The fiscal deficit is targeted to reduce further to 3.8% of GDP in 2025 from an estimated 4.3% in 2024 and 5% in 2023. These achievements demonstrate the efforts and commitments by the Government on policy reforms and economic management.

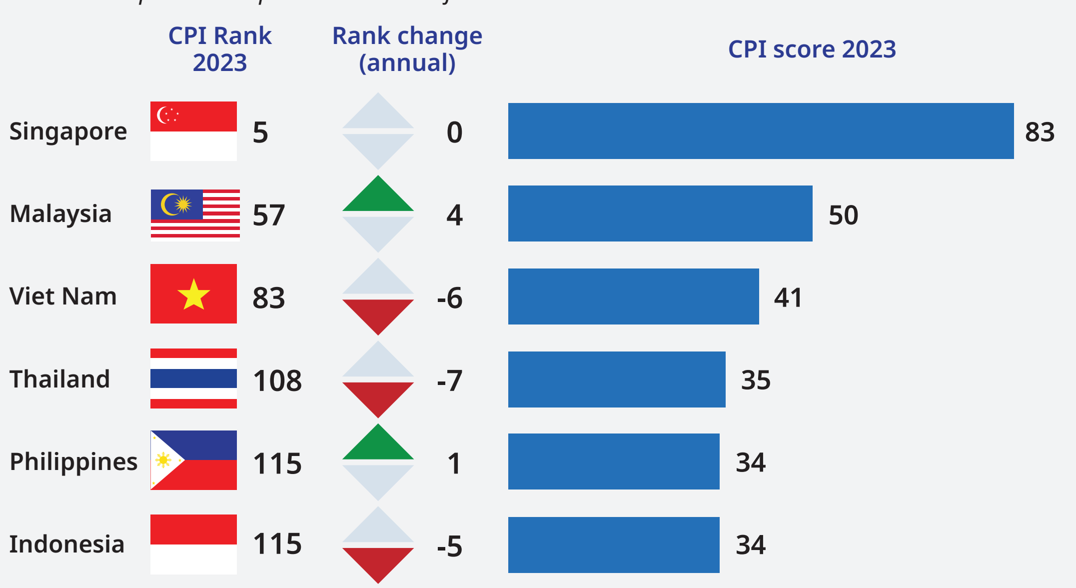
From the sovereign credit rating perspective, Malaysia is rated at A3 by Moody's, A- (S&P) and BBB+ (Fitch) with a 'Stable' outlook. Malaysia's key strengths identified by credit rating agencies include a diversified economy, resilient growth, stable institutions and sound banking systems as well as minimal foreign currency-denominated Government debt. The current ratings position indicates the low risk of default, thus promoting investors' confidence to the country.

World Competitiveness Ranking (WCR) by Institute for Management Development (IMD), ranked Malaysia at 34th in 2024, highlighting the need for improvements in certain areas, including Government and Business Efficiency. Nevertheless, the IMD has recognised Malaysia's strong and effective national tax policies and implementation, which ranked at 11th globally in the Government Efficiency indicator. This position reflects the country's effective tax policy, which supports economic stability and encourages business operations.

b) Governance, Accountability and Transparency

Generally, Malaysia's performance on governance, accountability and transparency have strengthened as a result of several reforms and other ongoing initiatives. This is reflected by Malaysia's ranking in Corruption Perception Index (CPI) in 2023, which has improved to 57th from 61st in 2022, with an increased score of 50 from 47. The improvement, among others, was due to the efforts of Malaysian Anti-Corruption Commission (MACC) in combating corruption cases. Among the ASEAN countries, Malaysia's CPI scored higher than most of regional peers such as the Viet Nam (41), Thailand (35), Philippines (34) and Indonesia (34), as illustrated in Figure 3.

FIGURE 3. *Corruption Perception Index 2023 for Selected ASEAN Countries*



Source: Transparency International

Governance Reforms under Malaysia MADANI

Given Malaysia's position in the rankings and indices above, it is imperative for the Government to further accelerate governance reforms. Therefore, the Special Cabinet Committee on National Governance (JKKTN) chaired by the YAB Prime Minister was established to holistically oversee the efforts in ensuring transparency, accountability and integrity within public administration and governance. This committee, which is the enhanced version of the Special Cabinet Committee on Anti-Corruption, is aimed at ensuring immediate, focused and more effective actions to address leakages, wastages, as well as the risks of corruption, misappropriation and abuse of power. JKKTN also serves as a platform to encourage Government bodies including statutory bodies and Government-linked entities to implement good governance principles as well as effectiveness and efficiency in the organisation and development plan across all sectors.

In May 2024, the Cabinet approved the formation of a Special Task Force on the Corruption Perceptions Index, chaired by the Chief Secretary to the Government. The task force has been primarily mandated to focus on exploring strategic solutions as well as providing recommendations and strategies to the Government on institutional, policy, and legal reforms, aimed at enhancing Malaysia's CPI ranking over the next decade. Furthermore, the task force has formed a focus group comprising public and private organisations, chambers of commerce, and NGOs, with the aim of ensuring strategies and initiatives to improve CPI based on priority areas, are effectively implemented. Six key areas will be prioritised by the task force, particularly enforcement, public fund management, business competitiveness, investment risk, legislation and strategic communication.

Furthermore, the Ekonomi MADANI framework adopts all-of-Malaysia approach through good governance and an efficient service delivery system to realise the aspiration. Therefore, immediate reforms to structures, systems and institutions are essential. The aspiration will be realised through reforming the legal and institutional framework, empowering integrity and accountability, as well as strengthening public finance management.

A) Legal and Institutional Reform

1) Legal Reforms

The Law and Institutional Reform Agenda Implementation Committee was established in April 2024 to evaluate archaic and current laws across ministries as well as propose institutional reform for Cabinet approval. Among the initiatives that are currently being implemented are as follows:

(i) The establishment of a comprehensive Ombudsman Malaysia

In June 2024, the Cabinet has agreed for the Government to undertake comprehensive engagement concerning the mechanism and setting up of Ombudsman Malaysia as a single and independent body that manages public complaints against ministries and government agencies. This demonstrates the Government's effort to strengthen governance, reduce bureaucracy, enhance checks and balances as well as reinforce rakyat's and business community's trust in the public sector.

(ii) **Amendment of the Whistleblower Protection Act 2010 [Act 711]**

The enactment of Act 711 aims to combat corruption and other misconduct by encouraging and facilitating the disclosure of improper conduct in public and private sectors, protecting individuals making such disclosures from any detrimental action, and ensuring these disclosures are properly investigated and managed. To further enhance the scope of Act 711, the proposed amendments provide greater clarity on the function of authorities in receiving and investigating complaints. The intended amendment will also ensure that investigations are conducted impartially.

(iii) **Separation of Powers between the Attorney General and Public Prosecutor**

In Malaysia, the Attorney General plays a dual role as the legal advisor and public prosecutor to the Government. These two roles, however, requires impartiality in performing specific responsibilities to avoid conflict of interest. Therefore, the separation of powers has become one of the main focus under the Government. Materialising this reform requires comprehensive and in-depth study as it may involve amendments to the Federal Constitution.

2) **Institutional Reforms**

(i) **Strengthening Good Governance of State-Owned Enterprises**

Any corporate entity recognised by national law as an enterprise, and in which the state holds ownership is considered as state-owned enterprises (SOEs) according to the OECD Guidelines on Corporate Governance of State-Owned Enterprises. In Malaysia, SOEs include but are not limited to statutory bodies, government-linked companies, and government-linked investment companies. The Government has issued several guidelines to ensure prudent and diligent management of SOEs, namely Guidelines on Governance and Board of Directors of MOF Inc.'s Companies 2024, Federal Statutory Bodies Governance and Management Guidelines and Prime Minister's Directive No.1 Year 2023: Government Interest Companies and Companies Limited by Guarantee (CLBGs) Governance.

(ii) **Parliamentary Institution**

The Government is also committed to strengthen the Parliamentary institutional structure in terms of administration and functions through the reintroduction of the Parliamentary Service Act which was previously repealed in 1992. This will uphold the principle of separation of power and grant the Parliament greater autonomy to determine policy and governance. Efforts are underway to scrutinise the policies and provisions of the Parliamentary Service Bill before being tabled to the Cabinet for approval.

(iii) Establishment of MADANI Mediation Centre

The proposed establishment of MADANI Mediation Centre is a platform to resolve disputes on various legal matters concerning the rakyat, particularly the underprivileged groups. In general, the establishment of this centre will focus on addressing demands and disputes of various scales by collaborating with multiple parties, including lawyers, academics, and other key stakeholders. The MADANI Mediation Centre aims to focus on pertinent areas that requires dispute settlement by the rakyat and will facilitate the settlement with ease.

B) Empowering Integrity and Accountability

1) The National Anti-Corruption Strategy 2024 – 2028

National Anti-Corruption Strategy (NACS) 2024 – 2028 has been developed as a successor to National Anti-Corruption Plan (NACP) 2019 – 2023. NACS focuses on strategies that will act in supporting our National Aspiration towards the Malaysia MADANI agenda, with the vision of Malaysia becoming a corruption-free and prosperous nation. The NACS also will deliver a more comprehensive approach to tackling corruption as well as introduce NACS framework to address issues related to governance, integrity, and corruption across various levels of society embodying politicians, public administration, Government procurement, law enforcement, legal and judicial institutions, the private sector, as well as the public. The NACS has outlined strategies and selected substrategies as depicted in Figure 4.

FIGURE 4. *National Anti-Corruption Strategy Framework*

NATIONAL ASPIRATION	Building Malaysia MADANI				
VISION	Malaysia Towards a Corrupt-free and Prosperous Nation				
MISSION	To Uphold The Rule of Law		To Create a Culture of Transparency and Accountability		To Encourage Participation Among Communities in Anti-Corruption Efforts
STRATEGY	Education	Public Accountability	Voice	Enforcement	Incentives
SUBSTRATEGY	i. Strengthen the implementation of extra-curriculum activities on integrity and anti-corruption at the higher learning and TVET institutions with the participation by individual and private entities ii. Implementation of Governance, Integrity, and Anti-Corruption Strengthening Module Program (MPGIA) at ministries and agencies	i. Enhance screening system in hiring public servants ii. Revive the Parliamentary Service Act iii. To conduct study on the feasibility in enacting Governance Bill iv. Oblige public sector in developing organisational anti-corruption measures based on corruption risk assessment	i. Organise annual conferences on anti-corruption research ii. Strengthen bilateral and multilateral relationship in matters of anti-corruption iii. Enhance the reporting procedures of the MACC iv. Organise annual stakeholder engagement sessions with legislators in the Parliament and State Legislative Assemblies	i. Amend the Whistleblower Protection Act 2010 ii. Introduce the Political Financing Bill iii. To review Part III (Corrupt Practices) of the Election Offences Act 1954 [Act 5] iv. Introduce the Malaysian Ombudsman	i. Include tax rebates for individuals and companies that participate in and contribute to anti-corruption programmes ii. Offer incentives to whistleblowers who expose any improper misconduct leading to case detection.

Source: Malaysian Anti-Corruption Commission

2) Measures Regarding Treatment of Detainees

A special task force will be established by the Enforcement Agency Integrity Commission (EAIC) to implement recommendations regarding the deaths of detainees in custody and identify proposed preventive measure related to improvements in legislation, Standard Operating Procedures (SOPs) and infrastructure. These recommendations will be scrutinised and implemented under the jurisdiction of each enforcement agency to ensure issues relating to human rights are protected with good governance principles. Additionally, EAIC has also established a hotline via messaging application to facilitate the public in reporting misconduct by enforcement personnel.

C) Strengthening Public Finance Management

1) Public Finance and Fiscal Responsibility Act 2023 [Act 850]

The Government enacted the Public Finance and Fiscal Responsibility Act 2023 [Act 850] which came into effect on 1 January 2024, to make provisions on the Government's responsibilities, accountability, governance, and transparency in managing public finance and fiscal risks. Act 850 provides greater accountability of the Minister of Finance to the Parliament in maintaining fiscal discipline, assessing fiscal risk exposure and providing periodical reports on public finance performance. Act 850 also institutionalises the role of Fiscal Policy Committee to advise the Government generally on fiscal management and sustainability.

2) Amendment of Audit Act 1957 [Act 62]

The amendment of the Audit Act 1957 [Act 62] which was passed by the Parliament in July 2024, clearly highlights the Government's commitment to enhance the check and balance mechanism of public funds management through the empowerment of the National Audit Department roles and functions. The amendment includes the expansion of the Auditor General's (AG) roles, among others, to conduct follow-up audits to ensure the audited party has implemented necessary action. In addition, the amendment also authorises the AG to audit entities including registered companies that receive financial guarantees from the Government; empowers the AG to trace the trail of public funds through a new 'Follow The Public Money Audit' approach; authorises the AG to issue any guidelines as may be necessary; and allows the AG to provide any recommendation to address any serious irregularities to overcome mismanagement of public money.

3) Public-Private Partnership Master Plan 2030 (PIKAS 2030)

The Public-Private Partnership Master Plan 2030 (PIKAS 2030) was launched on 9 September 2024 represents a continuation and enhancement of the Privatisation Master Plan (1991). As an effort to accelerate the country's economic growth while managing fiscal challenges, PIKAS 2030 has been designed to provide a more inclusive and clearer direction for public-private partnership (PPP). The PIKAS 2030 outlines four strategic thrusts, namely improving the PPP ecosystem for efficient service delivery, centralising coordination for stronger implementation, expanding models to diversify projects, and enhancing financing mechanisms for sustainable investment.

Under PIKAS 2030, the Government will prioritise the implementation of PPP projects through competitive bidding using the Request for Proposal (RfP) process. This process will enhance competitiveness, innovation, service quality and provide the best value to both the Government and the public. A single window gateway will also be implemented to improve and strengthen the PPP ecosystem requires the assessment of projects to be in line with the five-year Malaysia Plan as well as Government's fiscal position and financial capability. In addition, the Government will prioritise implementing user-pays-oriented PPP projects, in line to alleviate fiscal challenges.

Conclusion

Malaysia's development landscape has become more dynamic and requires economic, fiscal, governance and institutional reforms. These reform efforts require steadfast commitment from various stakeholders to enhance the trust of the rakyat and business community by strengthening good governance in managing the national treasury, administration and public institutions as well as upholding the principles of accountability and integrity. Looking ahead, the Malaysia MADANI aspiration accompanied by the Ekonomi MADANI framework serves as a foundation that provides comprehensive direction to achieve the utmost target of improving the well-being of the rakyat and propelling Malaysia towards a better future.

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FIGURE 1.1. *Federal Government Overall and Primary Balance*

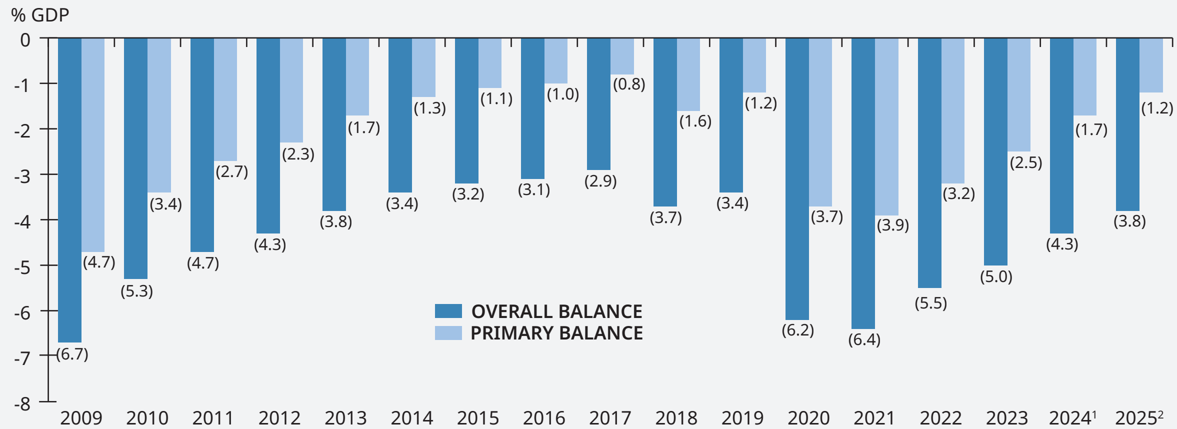


FIGURE 1.2. *Federal Government Revenue, Operating Expenditure and Current Balance*

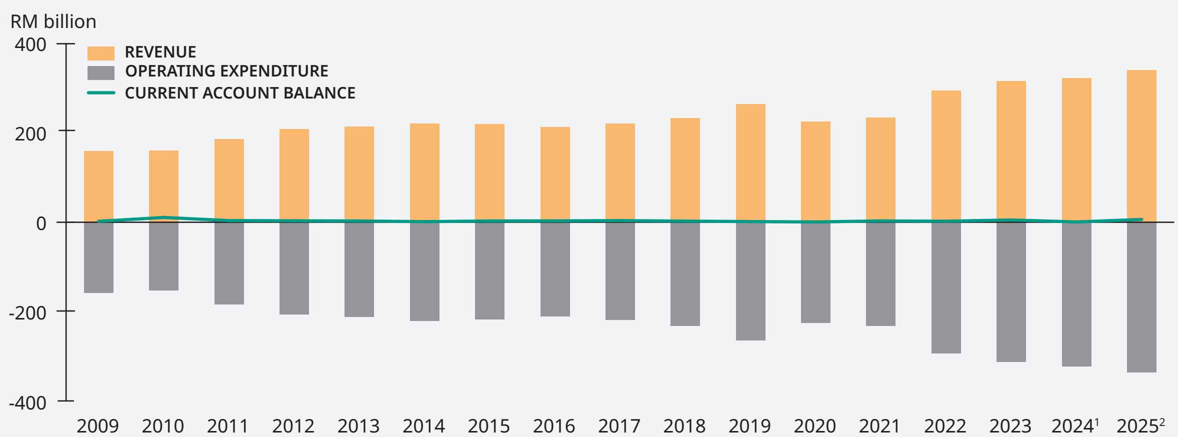
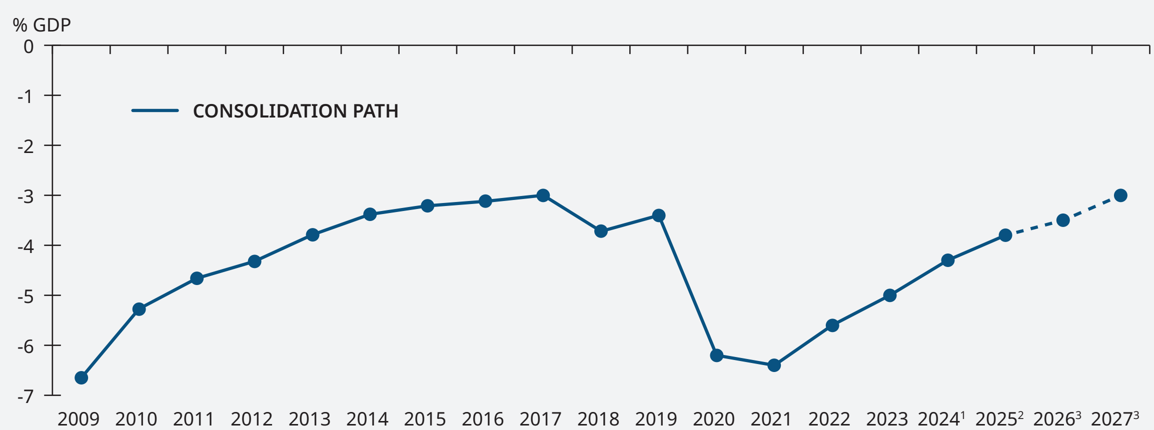


FIGURE 1.3. *Federal Government MTFF Overall Balance*



[1] Revised estimate
[2] Budget estimate, excluding Budget 2025 measures
[3] Forecast
Source: Ministry of Finance, Malaysia