SECTION 5

Fiscal Risk and Liability

SECTION 5

Fiscal Risk and Liability

Overview

The global economic landscape remains vulnerable due to policy uncertainties across the globe, persistent geopolitical tensions as well as volatility in commodity prices and financial markets, posing downside risks to the growth outlook. Notwithstanding domestic market dynamics, Malaysia is also susceptible to external challenges, underscoring the importance of prudent fiscal risk management by the Government. Cognisant of the potential risks, the newly enacted Public Finance and Fiscal Responsibility Act 2023 [Act 850] provides a comprehensive framework for fiscal risk mitigation to safeguard fiscal health. The fiscal risk framework addresses the critical aspects of public finance particularly debt management, transparency as well as governance of contingent liabilities. Notably, the Government has enhanced the disclosure of guarantees with a broader definition of financial guarantees. In addition, a new framework for public-private partnership as well as guidelines to govern quasi-fiscal entities has been introduced, in line with the aspirations of the Ekonomi MADANI towards achieving a balance between economic expansion and fiscal discipline with a whole-of-nation approach.

Debt and Liabilities Exposure

Since 2019, Malaysia has committed to transparency and disclosure of Government debt and liabilities, in line with the standards and statistical treatments outlined by the International Public Sector Accounting Standards (IPSAS) and the IMF's Public Sector Debt Statistics. The overall liabilities exposure consists of the Federal Government's debt, committed guarantees, and financial commitments arising from public-private partnership (PPP), private finance initiatives (PFI) and commitments under PBLT Sdn. Bhd. (PBLT). As at end-June 2024, total debt and liabilities amounted to RM1,596.8 billion, representing 82.1% of GDP.

TABLE 5.1. *Federal Government Debt and Liabilities Exposure, 2023 – 2024*

COMPONENT	RM BILLION		SHARE OF GDP (%)	
	2023	2024[1]	2023	2024[1]
Federal Government debt	1,172.5	1,227.5	*64.3*	*63.1*
Committed guarantees	227.4	231.4	*12.5*	*11.9*
Other liabilities	133.7	137.9	*7.3*	*7.1*
Total	**1,533.6**	**1,596.8**	***84.1***	***82.1***

[1] End-June 2024
Source: Ministry of Finance, Malaysia

Financial Guarantees

The Government plays an instrumental role in the economic and infrastructure development of the country which require significant investment. Principally, public goods such as education, health, security and social welfare are directly funded from fiscal resources. Meanwhile, quasi-fiscal instruments are utilised for strategic infrastructure projects, including joint development by both public and private sectors, as well as financing programmes for socioeconomic development. These arrangements possess advantages as it not only ease the burden on public finances but also improves delivery efficiency through private sector participation.

Under the newly enacted Act 850, the definition of Financial Guarantees is introduced to include guarantee instruments issued under four Acts namely, Financial Procedure Act 1957 [Act 61], Loans Guarantee (Bodies Corporate) Act 1965 [Act 96], Loan Guarantee Act 1963 [Act 412] and Loan Guarantee Act 1972 [Act 66]. These Financial Guarantees are discretionary guarantees deployed by the Government to meet the funding requirements of selected infrastructure projects and various financing programmes. Thereby, investors' confidence will be boosted, attracting private sector participation in funding large-scale infrastructure projects and other strategic investments that have significant socioeconomic benefits. As at end-June 2024, Financial Guarantees stood at RM407.8 billion or 20.9% of GDP, lower than the 25% threshold stated under Schedule 1 of Act 850.

Guarantees under Act 96

The first component of Financial Guarantees is a guarantee issued under Act 96 where the entity receiving the Government guarantee for financing raised is gazetted as body corporate under this Act. Currently, the guarantees are only issued to government linked companies (GLCs) and statutory bodies to finance projects related to public transportation, strategic investments as well as education and civil servants' housing loans. These type of projects and programmes, although financially feasible, are not commercially viable without some form of government support due to policy intervention, high cost and lengthy gestation period. As at end-June 2024, total outstanding guarantees under this Act amounted to RM330.8 billion or 17% of GDP, which covered 26 entities.

In terms of segment, infrastructure projects remained the largest recipient at 58.2% of total outstanding guarantees issued, mainly for the purpose of executing public transportation projects such as Mass Rapid Transit (MRT), East Coast Rail Link (ECRL) and Light Rail Transit 3 (LRT3) as well as highways. The second largest segment is services at 29%, mainly for education and civil servant's home financing. The remaining segments include utilities (5%), investment holdings (4.5%), plantations (2.1%) and financial (1.2%). The 10 largest recipients represent more than 85% of total outstanding guarantees issued. Additionally, 88.1% of the Act 96 guarantees are denominated in ringgit thus minimising currency risk exposure to the Government. The weighted average maturity for Act 96 guarantees financing stood at 11 years, of which 52% of the total maturity period is more than 10 years.

TABLE 5.2. *Financial Guarantees, 2023 – 2024*

COMPONENT	RM BILLION		SHARE OF GDP (%)	
	2023	2024[1]	2023	2024[1]
Guarantees under Act 96	328.0	330.8	*18.0*	*17.0*
Guarantees under Act 61	72.0	77.0	*3.9*	*3.9*
Undertakings and Supports	30.0	30.1	*1.6*	*1.5*
Guarantee Schemes	42.0	46.9	*2.3*	*2.4*
Total	**400.0**	**407.8**	***21.9***	***20.9***

[1] End-June 2024
Source: Ministry of Finance, Malaysia

Guarantees under Act 61

The second component of Financial Guarantees consists of undertakings and supports as well as guarantee schemes issued under the administration of Act 61. Undertakings and supports are given for specific purposes such as corporate restructuring, temporary financial assistance and also strategic investments. As at end-June 2024, the outstanding exposure from undertakings and supports stood at RM30.1 billion or 1.5% of GDP, with Urusharta Jamaah Sdn. Bhd. (UJSB) being the highest recipient representing 77.3% of total exposure.

TABLE 5.3. *Major Recipients of Act 96 Guarantees, 2023 – 2024*

ENTITY	RM MILLION		SHARE (%)		SHARE OF GDP (%)	
	2023	2024[2]	2023	2024[2]	2023	2024[2]
DanaInfra Nasional Berhad	82,760	81,790	*25.2*	*24.7*	*4.5*	*4.2*
Malaysia Rail Link Sdn. Bhd.[1]	41,394	48,322	*12.6*	*14.6*	*2.3*	*2.5*
Lembaga Pembiayaan Perumahan Sektor Awam	45,250	47,700	*13.8*	*14.4*	*2.5*	*2.4*
Perbadanan Tabung Pendidikan Tinggi Nasional	41,130	42,150	*12.5*	*12.7*	*2.3*	*2.2*
Prasarana Malaysia Berhad	42,569	41,355	*12.9*	*12.5*	*2.3*	*2.1*
Projek Lebuhraya Usahasama Berhad	11,000	11,000	*3.4*	*3.3*	*0.6*	*0.6*
Federal Land Development Authority (FELDA)	6,928	6,928	*2.1*	*2.1*	*0.4*	*0.4*
Pengurusan Air SPV Berhad	6,370	6,450	*1.9*	*1.9*	*0.3*	*0.3*
Suria Strategic Energy Resources Sdn. Bhd.[1]	6,168	5,972	*1.9*	*1.8*	*0.3*	*0.3*
Jambatan Kedua Sdn. Bhd.[1]	5,057	5,027	*1.5*	*1.5*	*0.3*	*0.2*
Total of major recipients	**288,626**	**296,694**	***87.8***	***89.5***	***15.8***	***15.2***
Other Recipients	39,387	34,101	*12.2*	*10.5*	*2.2*	*1.8*
Total government guarantees	**328,013**	**330,795**	***100.0***	***100.0***	***18.0***	***17.0***

[1] Subject to exchange rate valuation
[2] End-June 2024
Source: Ministry of Finance, Malaysia

Meanwhile, guarantee schemes are deployed by the Government to support the implementation of specific initiatives aimed at promoting economic growth and improving the well-being of the rakyat. Currently, there are three main guarantee schemes namely scheme for SMEs and businesses under Syarikat Jaminan Pinjaman Perniagaan Berhad (SJPP), scheme for house buyers under Syarikat Jaminan Kredit Perumahan Berhad (SJKP), and scheme for promoting green financing through Green Technology Financing Scheme (GTFS). SJPP was initiated in 2009 under the Second Economic Stimulus Package to facilitate SMEs in obtaining financing from commercial financial institutions. Meanwhile, SJKP was established under Budget 2008 to provide guarantee for financing facilities on home purchase for those without fixed salary. GTFS was introduced in 2010 in line with the launching of the National Green Technology Policy in 2009 to promote green investments through better access and lower cost to financing.

As of end-June 2024, the total outstanding exposure from these schemes amounted to RM46.9 billion, representing 2.4% of GDP. Since inception, the exposure has remained manageable supported by robust assessment criteria aligned with standards employed in the banking sector. Additionally, the guarantee exposure is safeguarded by a contingency fund sourced from guarantee fees and asset collateral for housing loans under SJKP.

Guarantees under Act 66 and Act 412

Guarantee under Act 66 and Act 412 refer to guarantee given for financing raised from multilateral financial institutions. Presently, there are no outstanding guarantee issued under both Act 66 and Act 412 as Malaysia has a strong and deep financial market with ample liquidity to support the financing needs for development. Hence, there is minimal requirement to acquire financing from multilateral financial institutions.

FEATURE ARTICLE

Reining in Risk: Enhancing Governance on Government Guarantees

Introduction

Government guarantees are quasi-fiscal instruments, in which a government acts as a secondary obligor to a commitment undertaken by an entity that receives the guarantee facilities. Generally, a guarantee instrument is deployed by a government for various purposes, including investments that can generate cash flows in the long run, hence reducing the burden on public expenditure. Moreover, this approach reduces the financing cost of strategic infrastructure projects undertaken by the private sector and increases viability and efficiency in the implementation of projects.

Nonetheless, while government guarantees are a pertinent tool for economic development, there are risks that arise from deploying it. Unmanaged risks can lead to substantial fiscal burden as well as compromise financial stability and investors' confidence. The potential liabilities arising from guarantees can strain public finances and ultimately affect a nation's sovereign credit rating. Therefore, it is crucial to establish a comprehensive and effective risk management framework to ensure prudent management of government guarantees and safeguard the nation's financial health.

Government Guarantees in Malaysia

Guarantees can be deployed in the form of direct guarantees to an entity or to the financial obligation undertaken by an entity. In Malaysia, government guarantees are granted either by embedding specific provisions within an entity's establishment legal framework, or issued by the Government to an entity for intended purposes. Hence, government guarantees can be categorised as institutional guarantees or financial guarantees.

A. Institutional Guarantees

Guarantees under this category refer to the obligation of the Government which is distinctly specified in the establishment act of a statutory body. The institutional guarantee that is granted covers cash flows obligation, debt and liability as well as deposits and contributions to the entity, as stipulated in the related legislation. Currently, there are six statutory bodies that fall under this category, namely Employees Provident Fund, Retirement Fund (Incorporated), Lembaga Tabung Haji, Bank Simpanan Nasional, Lembaga Tabung Angkatan Tentera, and Perbadanan Tabung Pendidikan Tinggi Nasional as shown in Figure 1.

FIGURE 1. *Types of Institutional Guarantees*

Source: Related legislations and Ministry of Finance, Malaysia

B. Financial Guarantees

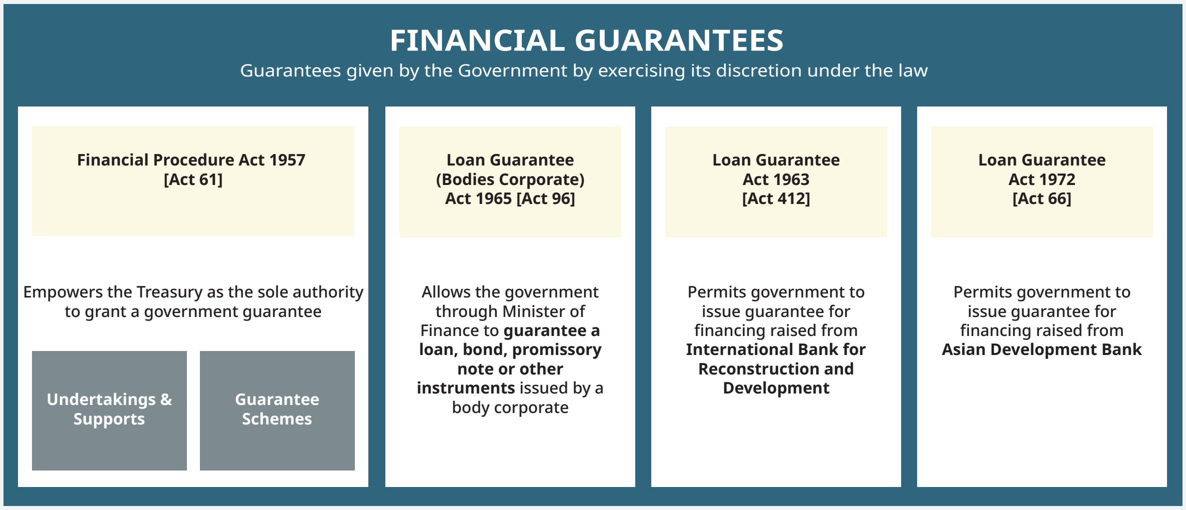
The Government may grant guarantees by exercising its discretion under specific law to guarantee a loan or borrowing instrument undertaken by an entity for strategic purposes. Under this category, the Government will assume the financial obligations only in the event of default. There are four legislations that allow the issuance of financial guarantees as shown in Figure 2.

i. Section 14 of the Financial Procedure Act 1957 [Act 61] empowers the Treasury as the sole authority to grant government guarantees. The Act further governs that state governments are not authorised to grant a guarantee, except with the approval of the Federal Government. Several types of guarantees have been issued under Act 61 in the form of guarantee schemes such as scheme under Syarikat Jaminan Kredit Perumahan Berhad (SJKP) and Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) or in the form of letters of undertaking for obligations or commitments of Government entities such as to Urusharta Jamaah Sdn. Bhd.

ii. The Loan Guarantee (Bodies Corporate) Act 1965 [Act 96] allows the Government, through the Minister of Finance, to guarantee a loan, bond, promissory note or other instruments issued by a body corporate. As at 30 June 2024, there are 26 statutory bodies and government-linked companies that have been gazetted as recipients of government guarantees under this Act. The majority of the guarantees issued under this Act are for the purpose of public transportation, strategic investments, education and civil servants' housing loan.

iii. The Loan Guarantee Act 1963 [Act 412] and Loan Guarantee Act 1972 [Act 66] permit the Government to issue guarantees for financing raised from the International Bank for Reconstruction and Development and Asian Development Bank, respectively. Presently, there are no outstanding loans guaranteed by the Government from these two Acts.

FIGURE 2. *Types of Financial Guarantees*



Source: Related legislations and Ministry of Finance Malaysia

International Best Practices

As the Government continues to pursue the national development agenda and ensure well-being of the rakyat, active participation of the private sector in complementing the development planning is pertinent. Thus, alternative financing approach through government guarantees can be utilised to expedite execution of projects, facilitate financing needs, and create economic opportunities. While this approach has complemented the existing development funding and brought substantial economic growth over the years, it has also heightened the risk exposure to public finances. Hence, there is an urgent need for the Government to further enhance the governance in reining risks associated from the financial guarantees.

According to international best practices, there are several components required in overarching governance framework for managing government guarantees which can be summarised into four key components. The **first** component is a clear policy and legal framework for issuing guarantees, clarifying the government's stance on guarantees and identifying specific purposes that need to be considered in granting a guarantee. **Secondly**, a comprehensive reporting and disclosure are required to declare government's exposure on guarantees, as well as possibility of utilisation of public funds, given that the risk arising from guarantees will expose the government to financial obligations or commitments.

The **third** component involves restricting risk exposure through a statutory limit that only permits the government to a certain threshold within its financial ability. The measure will deter a government from subjecting itself to an unlimited exposure to contingent liabilities. The **final** component comprises risk mitigation measures and contingency fund in the event of default which can minimise the impact on the government's fiscal position. Such measures include imposing a risk-based guarantee fee and establishing a dedicated reserve fund with an annual provision made based on the magnitude of the exposure. Components of best international practices of government guarantee management is as illustrated in Figure 3.

FIGURE 3. *International Best Practices*

Source: Analysis by Ministry of Finance Malaysia based on from IMF and World Bank

Therefore, based on international best practices, three main areas that require improvement have been identified to design the current governance framework of Malaysia's **financial guarantees** as follows:

i. Diverse legislation on financial guarantees

   The governance of financial guarantees is currently stipulated under four acts, which are subject to multiple requirements and may lead to different interpretations. Thus, the definition of guarantees must be streamlined and consolidated within a single policy framework to enhance governance. Previous experiences highlight the importance of strengthening existing regulations on risk management to mitigate and alleviate unnecessary burden on public finances.

ii. Unlimited exposure from issuances of financial guarantees

   While the Government imposes statutory limits on Federal Government debt under various loan legislations, there are no restrictions on the exposure from financial guarantees. Over the years, the exposure from guarantees issued under Act 96 alone has doubled from 9% of GDP in 2009 to 18.4% in 2018. Given the rising exposure from guarantees, the Government needs to take a more disciplined approach to limit and mitigate the risks due to probable financial vulnerability of the borrowing entity.

iii. Inadequate reporting and disclosure

   Presently, the Government discloses guarantees issued under Act 96 and committed guarantees issued under Act 61 in the annual Fiscal Outlook and Federal Government Financial Statement. Nevertheless, the existing reports do not include other Government sureties, namely letters of undertaking, letters of support and guarantee schemes provided under Act 61.

Meanwhile, risks stemming from **institutional guarantees** are controlled, as the Government's exposure is mitigated through a comprehensive governance provision specified under the establishment act of the statutory body. Furthermore, there are monitoring mechanisms and regulatory supervisions from financial authorities including Bank Negara Malaysia and the Securities Commission. Therefore, more emphasis is required to manage risks arising from financial guarantees rather than institutional guarantees.

Enhancing Governance through the Public Finance and Fiscal Responsibility Act 2023 [Act 850]

The Ekonomi MADANI framework provides the overarching national agenda and identifies the Government's medium-term economic priorities to restructure Malaysia's economy towards greater competitiveness and sustainability. The framework stresses good governance, agile and collaborative public service delivery as well as sound public finance as key enablers. Hence, a bold initiative was undertaken to enhance fiscal governance through the enactment of the Public Finance and Fiscal Responsibility Act 2023 [Act 850], enforced on 1 January 2024. This Act is pivotal in managing fiscal risks associated with financial guarantees, alongside several other fiscal targets and limits.

i. Unified interpretation of guarantees

The unprecedented enactment of Act 850 provides the interpretation of 'financial guarantee' to encompass guarantees issued under four acts, namely Act 61, Act 96, Act 412 and Act 66. The unified definition of financial guarantees addresses ambiguities in the interpretation of guarantees, thereby enhancing fiscal disciplines and strengthening the management of guarantees.

FIGURE 4. *Unified Interpretation of Financial Guarantee*

Source: Ministry of Finance, Malaysia

ii. Regulatory framework for financial guarantees

The Act mandates the publication of a guideline for managing financial guarantees. A comprehensive and standardised policy framework will provide proper criteria in assessing the risks associated with issuing guarantees and facilitating informed decisions by the Government. This structured approach ensures financial guarantees undertaken for projects are aligned to national priorities and offer significant socio-economic benefits.

iii. Enhanced transparency through fiscal risk disclosure

Act 850 introduces the requirement for the publication of an annual fiscal risk statement to disclose financial guarantees in detail. This provision enables stakeholders to consider the extent and impact of guarantees on the Government's financial position, thereby fostering greater accountability, transparency as well as trust in public financial management.

iv. Imposition of limit on financial guarantees

Moreover, Act 850 imposes a fiscal limit on financial guarantees at 25% of GDP upon the enforcement of the Act. This fiscal control provides clear guidance and oversight for the Government and various stakeholders, promoting greater accountability in the issuance and management of guarantees. Furthermore, the introduction of this limit alleviates concerns from investors and credit rating agencies on the rising exposure from contingent liabilities, thus ensuring guarantees are issued in accordance with the country's economic capacity and public resources.

v. Mitigating measures on potential defaults

Previously, the Government implemented certain mitigating measures to reduce risk exposure, including imposing a guarantee fee and setting up a trust fund to manage guarantee fees. Similarly, Act 850 also requires further risk mitigating measures and mandates the establishment of a sub-committee under the Fiscal Policy Committee to monitor fiscal risk, debt and liabilities. Any potential or anticipated risks materialisation must be presented for the Committee's review alongside feasible mitigating measures.

Act 850 also necessitates the Government to table an intervention plan to the Parliament by detailing mitigative measures in the event of a potential default of guaranteed facilities. This requirement improves transparency, thus allowing stakeholders to monitor potential risks, and reduces the probability of unforeseen budgetary shocks to the Government.

Conclusion

The enactment of Act 850 which serves as an enhanced governance framework towards reining in risks stemming from guarantees signifies a critical step to safeguard Malaysia's fiscal stability and limit risk exposure. By imposing restrictive measures, developing a comprehensive risk management guideline and prudent disclosure of government guarantees, the Government has demonstrated a formidable stance and strong commitment to fiscal transparency and accountability. These new measures will bolster investors' confidence and perception as well as improving sovereign credit ratings. Moving forward, the Government intends to review and integrate all guarantee-related acts into a single, comprehensive legislation to strengthen fiscal governance in accordance with global best practices and international standards.

References

International Monetary Fund. (2016). *Analysing and Managing Fiscal Risks-Best Practices.* Retrieved from *http://www.imf.org/external/pp/ppindex.aspx*

Razlog, L., Irwin, T., & Marisson, C., (2020). *A Framework for Managing Government Guarantees*. Discussion Paper MTI Global Practice. The World Bank Group. Retrieved from *https:// documents1.worldbank.org/curated/en/444621590552809834/ pdf/ A-Framework-for-Managing-Government-Guarantees.pdf*

Saxena, S. (2017). *How to Strengthen the Management of Government Guarantees*. How to notes series. Fiscal Affairs Department, International Monetary Fund. Retrieved from *https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2017/10/19/How-to-Strengthen-the-Management-of-Government-Guarantees-45201*

Committed Guarantees

The Government is taking a more prudent and transparent approach by disclosing committed guarantees as a component of the Federal Government debt and liabilities reporting. Committed guarantees are part of Financial Guarantees which consist of recipients that receive financial support from the Government under extenuating circumstances to sustain ongoing projects and programmes, either in the form of temporary cash flow injection, working capital or partial interest repayment. Committed guarantees represent 56.7% of total outstanding Financial Guarantees provided under Act 96 and Act 61. As at end-June 2024, committed guarantees have marginally increased to RM231.4 billion as compared to RM227.4 billion as at end-2023, mainly contributed by higher financing needs for construction of the ECRL project which has progressed rapidly, reaching 67% of completion. The marginal increment of committed guarantees indicates enhanced fiscal discipline and improved governance in reigning risk exposure arising from Financial Guarantees.

Other Liabilities

Other liabilities include financial commitments originating from the implementation of PPP and PFI projects as well as obligations related to the PBLT. These commitments and obligations represent alternative funding mechanisms adopted by the Government to support the national infrastructure development agenda.

TABLE 5.4. *Committed Guarantees, 2023 – 2024*

ENTITY	RM MILLION		SHARE (%)	
	2023	2024[3]	2023	2024[3]
DanaInfra Nasional Berhad	82,760	81,790	*36.4*	*35.3*
Malaysia Rail Link Sdn. Bhd.[1]	41,394	48,322	*18.2*	*20.8*
Prasarana Malaysia Berhad	42,569	41,355	*18.7*	*17.9*
Urusharta Jamaah Sdn. Bhd.[2]	23,108	23,264	*10.2*	*10.0*
Federal Land Development Authority (FELDA)	6,928	6,928	*3.1*	*3.0*
Suria Strategic Energy Resources Sdn. Bhd.[1]	6,168	5,972	*2.7*	*2.6*
Jambatan Kedua Sdn. Bhd.[1]	5,057	5,027	*2.2*	*2.2*
1Malaysia Development Berhad	5,000	5,000	*2.2*	*2.2*
Turus Pesawat Sdn. Bhd.	4,185	4,185	*1.8*	*1.8*
GovCo Holdings Berhad	4,325	3,700	*1.9*	*1.6*
MKD Kencana Sdn. Bhd.	3,200	3,200	*1.4*	*1.4*
MKD Signature Sdn. Bhd.[2]	1,560	1,560	*0.7*	*0.7*
TRX City Sdn. Bhd.	1,150	650	*0.5*	*0.3*
Syarikat Perumahan Negara Berhad	–	424	–	*0.2*
Total	**227,404**	**231,377**	***100.0***	***100.0***

[1] Subject to exchange rate valuation
[2] Guarantee provided under Act 61
[3] End-June 2024
Source: Ministry of Finance, Malaysia

Public-Private Partnership

The PPP model represents a collaborative approach between the public and private sectors, whereby a stand-alone business entity is established, financed and operated by the private sector to undertake infrastructure projects, acquire assets, or render services to the Government and the public. This partnership is defined under an agreement to determine various deliverables such as investment proportions, risk distribution, contractual responsibilities, shared benefits and level of service requirements. The Government employs two distinct PPP models, constituting the user-pay model, which is fully funded by the private sector, and the co-financing model, which involves contributions from both the Government and private sector. As at end-June 2024, total outstanding financial commitments, which account for 104 PPP projects under the co-financing model, recorded an increase of 7.8% to RM93.5 billion (2023: RM86.7 billion). The increase in PPP commitments is attributed to the concession renewal of medical supplies and consolidated emergency call service platform.

Private Finance Initiative

The PFI was introduced to support the Government's efforts to sustain the national development objectives amid the economic downturn in 2008. Under this initiative, funding was provided for projects and programmes related to public utilities, education, affordable housing, skills development and maintenance of government facilities. Funding for PFI is sourced from the Employees Provident Fund and the Retirement Fund (Incorporated) which the Government, in turn, is liable for the financial commitment.
As at end-June 2024, PFI financial obligations were recorded at RM43.8 billion (2023: RM44.7 billion).

The PBLT was established in 2005 with the mandate to execute the implementation of projects aimed at improving the welfare of the police force. The PBLT has completed most of its projects and has almost paid off its outstanding sukuk obligation. As at end-June 2024, outstanding obligation of PBLT was at RM0.6 billion (2023: RM2.3 billion).

Risk Mitigation on Liabilities Exposure

Managing the risk arising from financial guarantees is crucial in ensuring fiscal sustainability and economic stability. Thus, the Government will continue to prioritise the identification, assessment and implementation of mitigation measures for risks associated with public finances, particularly committed guarantees, PPP and contingent liabilities. Among bold steps taken by the Government includes the enactment of Act 850, whereby the obligation to manage fiscal risks is institutionalised in a formal framework. In managing financial guarantee, Act 850 broadens the interpretation of guarantees, mandates the publication of guidelines in managing guarantees which outlines the responsibilities of the Minister, and for the first time, imposes a threshold on guarantees by the Government at 25% of GDP. Furthermore, Act 850 empowers the establishment of a new sub-committee, namely Fiscal Risk, Debt and Liability Committee to enhance the governance on risk management.

In addition, the Government recently announced a new policy document on PPP, the Public-Private Partnership Master Plan 2030 (PIKAS 2030) to enhance the management of PPP projects and programmes. PIKAS 2030 refines the approach in the coordination of PPP implementation, improvement of PPP ecosystem as well as funding mechanism and new structures which can ease the burden on Government finances. This comprehensive and robust policy is also designed to address and manage risks stemming from PPP initiatives.

Concurrently, the Government is implementing enhanced measures to strengthen the administration and oversight of GLCs and federal statutory bodies hence improving the ability of the Government to manage potential risk exposure from these entities. Key initiatives include the release of the Guidelines on Governance and Board of Directors of MOF Inc.'s Companies 2024 and the Federal Statutory Bodies Governance and Management Guidelines, designed to promote better governance and prudent management across these entities. Additionally, a comprehensive study is underway to introduce a new legislation aimed at institutionalising best practices in corporate governance for state-owned entity (SOEs). This legislation will emphasise on enhancing good corporate governance and accountability of SOEs in undertaking their mandates. The combination of these updated guidelines and forthcoming legislation will strengthen the existing legislation framework for GLCs and federal statutory bodies, clarifying their roles and responsibilities in advancing national development objectives and economic priorities.

Conclusion

The Government remains committed in enhancing fiscal resilience through a comprehensive strategy that includes prudent debt management as well as rigorous oversight on contingent liabilities and quasi-fiscal entities. It is crucial for the Government to maintain focus on institutionalising and strengthening governance frameworks, improving transparency, and ensuring responsible fiscal conduct. With a more proactive approach, Malaysia is better positioned to mitigate potential fiscal shocks, protect fiscal space, and maintain the fiscal consolidation trajectory. Therefore, Malaysia is able to achieve the national development agenda while safeguarding the well-being of the rakyat in accordance with the Ekonomi MADANI aspirations.

FIGURE 5.1. *Outstanding Government Guarantees*

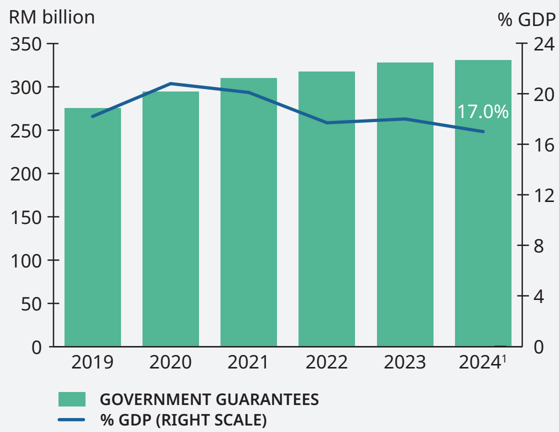


FIGURE 5.2. *Maturity Profile of Government Guarantees[1]*

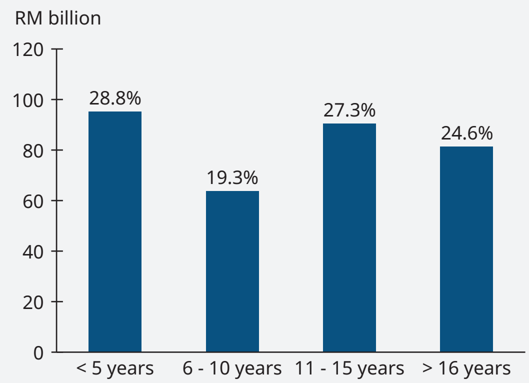


FIGURE 5.3. *Government Guarantees by Segment[1]*

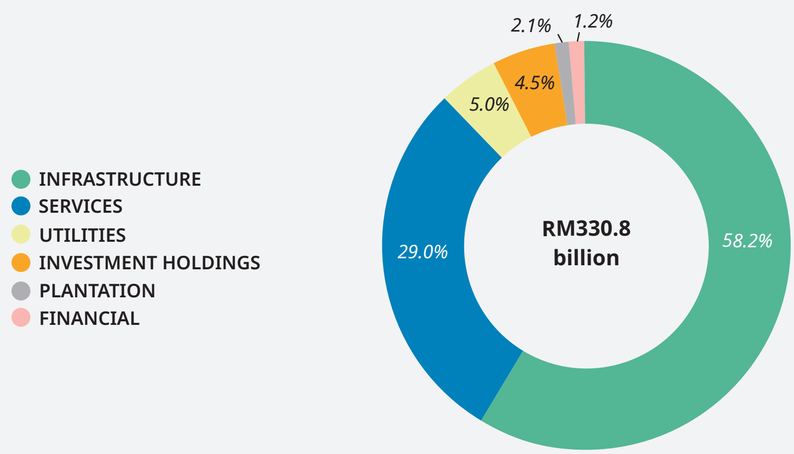
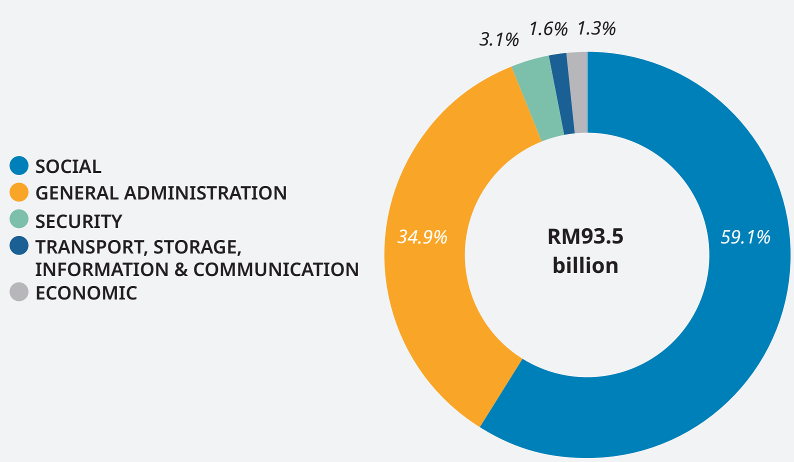


FIGURE 5.4. *Outstanding PPP Obligations by Sector[1]*



[1] End-June 2024

Source: Ministry of Finance, Malaysia and Public Private Partnership Unit (UKAS), Prime Minister's Department