SECTION 5

Fiscal Risk and Liability

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Overview

In 2020, governments around the world are tested with an arduous mission to steer their countries out of the health crisis and economic downturn. The COVID-19 pandemic immobilised the global economy within a span of few months after the first transmission was discovered in late December 2019. Many governments have enforced movement restrictions to contain the extremely contagious virus, causing disruption in economic activities and adversely impacting businesses and livelihood of citizens.

The restrictions, while effective in containing the infections, have led to inevitable economic consequences which require interventions from governments. Fiscal risks are heightened as most governments increased their debt and other forms of leverage to finance the unexpected large fiscal deficits following various stimulus measures. Most of the stimulus measures consist of increased budget for the health sector, financial benefits for retrenched workers and employees forced to take pay cut or unpaid leave as well as equity injection, guarantees and support for businesses.

Malaysia is no exception, as a series of stimulus packages and recovery plan was launched to mitigate the crisis. In this regard, the deficit target for 2020 was revised from 3.2% of Gross Domestic Product (GDP) as announced during the tabling of the 2020 Budget to 6%. The Government enacted a new legislation to temporarily lift the statutory debt ceiling to raise additional borrowings to finance the packages. In addition, several measures were introduced to provide soft loans and guarantees for the affected businesses, especially small and medium enterprises (SMEs). These measures have increased fiscal risks in terms of higher financial obligations and exposure. Nevertheless, the Government is committed to undertaking mitigation measures to ensure the risk exposure is contained.

Debt and Liabilities Exposure

Since 2018, the Government began to publish a more comprehensive debt and liabilities reporting. This is in line with efforts to transition to accrual accounting standards as well as statistical reporting under the International Public Sector Accounting Standards (IPSAS) and Public Sector Debt Statistics by the International Monetary Fund (IMF). The debt and liabilities exposure is composed of the Federal Government debt and other financial obligations such as committed guarantees, 1Malaysia Development Berhad's (1MDB) debt and other liabilities including estimated cash commitments of the Government. As at end-September 2020, the Federal Government debt and liabilities exposure was estimated at RM1,256.9 billion or 87.3% of GDP.

TABLE 5.1. *Federal Government Debt and Liabilities Exposure, 2019 – 2020*

COMPONENT	RM BILLION		SHARE OF GDP (%)	
	2019	2020[1]	2019	2020[1]
Federal Government debt	793.0	874.3	*52.5*	*60.7*
Committed guarantees	162.1	177.0	*10.7*	*12.3*
1MDB	31.9	32.3	*2.1*	*2.3*
Other liabilities (PPP, PFI, PBLT)	182.2	173.3	*12.1*	*12.0*
Total	**1,169.2**	**1,256.9**	***77.4***	***87.3***

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

Government Guarantees

The Loans Guarantee (Bodies Corporate) Act 1965 [Act 96] authorises the Government to provide guarantee on a loan, bond, promissory note or any financing instrument raised by an entity, which is gazetted as a body corporate under this Act. The entities currently granted a **Government guarantee** (GG) include government-linked companies, statutory bodies as well as agencies under state governments. As at end-September 2020, total outstanding GGs stood at RM289.8 billion or 20.1% of GDP (end-2019: RM275.4 billion; 18.2%). The increase was mainly attributed to new issuances by DanaInfra and Prasarana to finance public transport infrastructure projects as well as financing raised by the Public Sector Home Financing Board (LPPSA) to fund housing loan facility for civil servants. Most of the GGs were for infrastructure (53.7%) and services (24.3%) sectors. The top 10 GG recipients composed more than 80% of the total loan guarantees.

As at end-September 2020, the overall portfolio of GGs recorded a weighted average time to maturity of 10.9 years. About 20% of the GGs are expected to mature within the period six to 10 years while about 45% of the portfolio will mature beyond 10 years, thus refinancing risk is manageable. Exchange rate risk is relatively minimal as more than 90% of the outstanding GGs is mainly denominated in ringgit.

Loan guarantees which require financial assistance from the Government are classified under **committed guarantees**. The entities involved are provided guarantees under the Act 96 or financial undertakings under Section 14 of the Financial Procedure Act 1957 [Act 61][1]. These financial supports are provided to assist entities in carrying out projects, particularly during the construction phase and at the beginning of operations as well as those facing financial difficulties. Outstanding committed guarantees were estimated at RM177 billion or 12.3% of GDP as at end-September 2020, mainly to finance existing public transport infrastructure projects. The financial performance and subsequent development plans of these entities are reviewed regularly and placed under scrutiny in efforts to manage the downside risks to the Government.

TABLE 5.2. *Major Recipients of Loan Guarantees, as at end-September 2020*

ENTITY	RM MILLION	SHARE (%)	SHARE OF GDP (%)
Total loan guarantees	**289,808**	***100.0***	***20.1***
of which:			
DanaInfra Nasional Berhad	71,620	*24.7*	*5.0*
Prasarana Malaysia Berhad	37,914	*13.1*	*2.6*
National Higher Education Fund Corporation	37,300	*12.9*	*2.6*
Public Sector Home Financing Board	27,400	*9.4*	*1.9*
Malaysia Rail Link Sdn. Bhd.	21,016	*7.3*	*1.4*
Khazanah Nasional Berhad	11,300	*3.9*	*0.8*
Projek Lebuhraya Usahasama Berhad	11,000	*3.8*	*0.8*
Pengurusan Air SPV Berhad	10,260	*3.5*	*0.7*
GovCo Holdings Berhad	7,200	*2.5*	*0.5*
Suria Strategic Energy Resources Sdn. Bhd.	6,904	*2.4*	*0.5*
Total of major recipients	**241,914**	***83.5***	***16.8***

Source: Ministry of Finance, Malaysia

[1] 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.

TABLE 5.3. *Committed Guarantees, 2019 – 2020*

ENTITY	RM MILLION		SHARE (%)	
	2019	2020[2]	2019	2020[2]
DanaInfra Nasional Berhad	63,820	71,620	*39.4*	*40.4*
Prasarana Malaysia Berhad	32,264	37,914	*19.9*	*21.4*
Malaysia Rail Link Sdn. Bhd.[1]	18,506	21,016	*11.4*	*11.9*
Urusharta Jamaah Sdn. Bhd.	19,600	19,600	*12.1*	*11.1*
GovCo Holdings Berhad	7,200	7,200	*4.4*	*4.1*
Suria Strategic Energy Resources Sdn. Bhd.[1]	6,708	6,904	*4.1*	*3.9*
Jambatan Kedua Sdn. Bhd.[1]	5,648	5,561	*3.5*	*3.1*
MKD Kencana Sdn. Bhd.	3,500	3,500	*2.2*	*2.0*
SRC International Sdn. Bhd.	3,485	2,485	*2.2*	*1.4*
Sentuhan Budiman Sdn. Bhd.	800	800	*0.5*	*0.4*
TRX City Sdn. Bhd.	372	313	*0.2*	*0.2*
Asset Global Network Sdn. Bhd.	177	126	*0.1*	*0.1*
Total	**162,079**	**177,039**	***100.0***	***100.0***

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

1Malaysia Development Berhad

1MDB was formed in 2009 as a Minister of Finance Incorporated (MOF Inc.) company envisioned to assist the Government in catalysing strategic growth. However, 1MDB landed in financial distress as a result of an unsustainable heavily-indebted business operating model. This has necessitated the vital intervention from the Government in restructuring 1MDB's businesses as well as assuming its financial obligations. As at end-September 2020, 1MDB's outstanding debt was estimated at RM32.3 billion.

Since April 2017 up to September 2020, the Government has financially assisted 1MDB in the form of loans and advances of RM9.4 billion to meet 1MDB's financial commitments and debt servicing. As at end-September 2020, a total of RM13.4 billion assets linked to 1MDB's financial trail was recovered and merged into a dedicated trust fund administered by the Ministry of Finance. The main assets recovered were a mixture of physical and cash assets seized by the United States Department of Justice worth RM2.6 billion as well as cash received from Goldman Sachs as part of the settlement with the Government of USD2.5 billion. In addition, Goldman Sachs will assist and guarantee a full recovery value of at least USD1.4 billion worth of assets.

TABLE 5.4. *1MDB's Debt, as at end-September 2020*

COMPONENT	RATE (%)	MATURITY PERIOD	PRINCIPAL	
			(USD BILLION)	(RM BILLION)
Government Guarantee				
Sukuk	5.75	2039	-	5.00
IPIC-MOF Inc.				
1MDB Energy Ltd	5.99	2022	1.75	7.35[1]
1MDB Energy (Langat) Ltd	5.75	2022	1.75	7.35[1]
Letter of Support				
Global bond	4.44	2023	3.00	12.60[1]
Total				**32.30**

[1] Subject to exchange rate valuation
Source: Ministry of Finance, Malaysia

Other Liabilities

The public-private partnership (PPP) approach was initiated as a risk and reward-sharing development model between the Government and the private sector. As at end-September 2020, there are 97 PPP projects involving financial commitments from the Government up to the year 2047 estimated at RM119 billion. The commitments vary in the form of availability payments, maintenance charges, asset replacement charges, other expenses as well as payments for volume-based service contracts.

The private finance initiative (PFI) was introduced in the Ninth Malaysia Plan to facilitate infrastructure development projects including construction of schools, hospitals, universities and training centres. The PFI also provides for the maintenance and repair works of public buildings. The PFI liabilities were estimated at RM49.5 billion as at end-September 2020. Meanwhile, PBLT Sdn. Bhd. (PBLT) was established in 2005 as a wholly-owned special purpose vehicle by MOF Inc. to raise funds and develop infrastructure projects including quarters, police stations and other facilities for the Royal Malaysian Police (PDRM) force. As at end-September 2020, the PBLT liabilities were estimated at RM4.8 billion.

Conclusion

The Government will continue to closely monitor and scrutinise its overall fiscal exposure to ensure the risks are identified and ensued by a mitigation plan. Most of the increment of the liabilities are to finance existing infrastructure development projects. In addition, risks related to PPP and other commitments have been identified and allocated in the budget. The Government will also give emphasis towards a more systematic data consolidation and comprehensive reporting to provide a holistic view of debt and liabilities exposure.

FIGURE 5.1. *Outstanding Loan Guarantees*

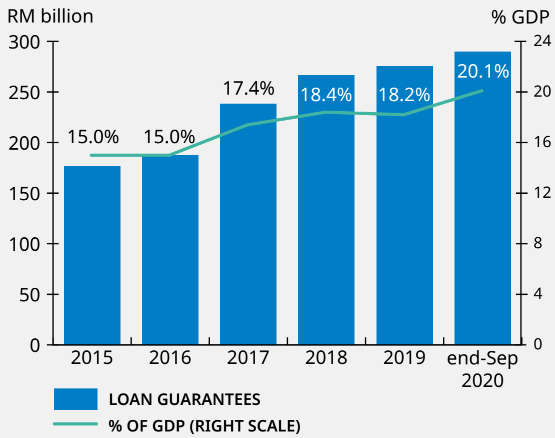


FIGURE 5.2. *Maturity Profile of Loan Guarantees, End-September 2020*

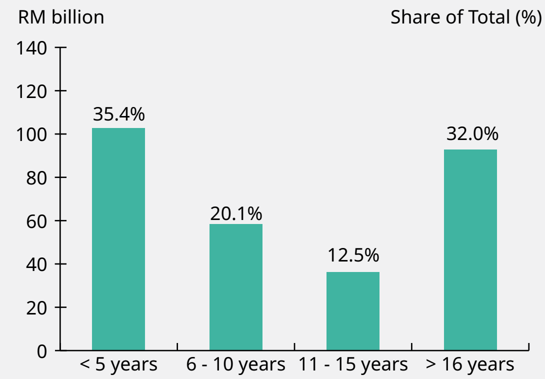


FIGURE 5.3. *Loan Guarantees by Sector, End-September 2020*

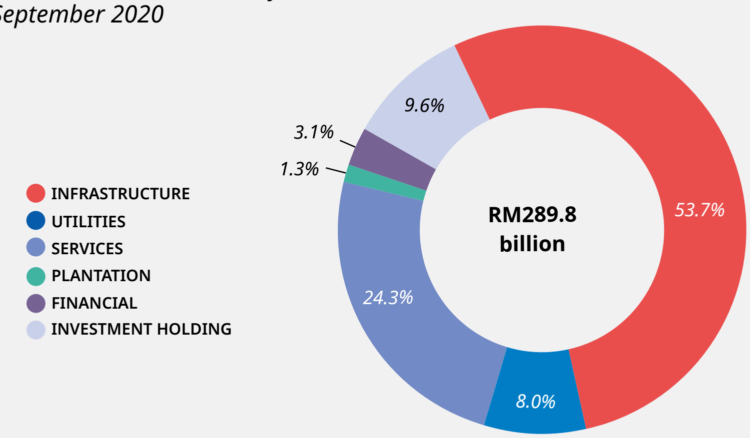
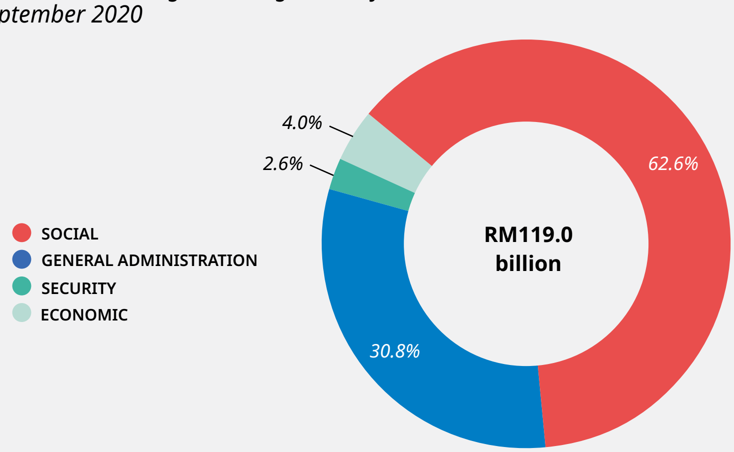


FIGURE 5.4. *Outstanding PPP Obligations by Sector, End-September 2020*



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