SECTION 5

Fiscal Risk and Liability

SECTION 5

Fiscal Risk and Liability

Overview

The economic growth trajectory in 2022 has generally recovered as movement control restriction was lifted and business operations resumed to near pre-pandemic level. However, volatility in the global economy arising from geopolitical conflicts and climate change necessitates the Government to diligently manage risk exposures, especially from contingent liabilities. Thus, consistent monitoring and assessment of risks together with efforts to strengthen the Government's fiscal capacity will be undertaken to prepare for any future economic shocks.

The Government's exposure from government guarantees (GG) was sustained at a modest level in the last two years due to the temporary policy shift towards containing the impact of the COVID-19 pandemic on public health and economic sustainability. Moreover, the exposure from the 1Malaysia Development Berhad (1MDB) has started to moderate through relentless recovery efforts following various approaches including negotiations and legal proceedings. Apart from that, the new Public-Private Partnership (PPP) approach announced in the Twelfth Malaysia Plan, 2021-2025 is expected to assist the Government in managing financial exposure from PPP projects.

Nonetheless, the Government will continuously intensify efforts on the development agenda towards higher economic growth while safeguarding the well-being of the *rakyat*. Strategic infrastructure projects, particularly public transportation as well as highways will be pursued to increase economic capacity whilst attracting investment and enhancing connectivity. Moreover, the increasing occurrence of flooding nationwide compels the Government to accelerate the execution of a comprehensive long-term mitigation plan which requires timely and significant financial resources amounting to RM15 billion. Simultaneously, the Government will emphasise on enhancing corporate governance and financial best practices especially among government-owned entities to minimise exposure from contingent liabilities.

FEATURE ARTICLE

Fiscal Risk Management in Malaysia

Introduction

Fiscal risk management has emerged as an important aspect in budgetary processes and fiscal estimates. Unexpected circumstances in recent years, particularly the COVID-19 pandemic and geopolitical tensions have shown that a country's public finances can be adversely affected without proper risk identification and management. Apart from these unexpected events, government's policies may pose risks to its fiscal estimates and forecasts. Therefore, many countries have imputed governance and transparency into their legal framework to encompass fiscal decisions that may impact any long- and medium-term fiscal forecasts. One of the tools used to enhance fiscal transparency is through the publication of a fiscal risk statement.

The Malaysian Government began risk reporting in 2018 when it published the inaugural Fiscal Outlook and Federal Government Revenue Estimates. In this regard, a dedicated chapter 'Fiscal Risk and Liability' was introduced to reflect the Government's priorities in managing fiscal risks. Concurrently, the Government will also continue to enhance fiscal governance and reporting through the proposed enactment of the Fiscal Responsibility Act (FRA) by the end of the year.

What is Fiscal Risk?

Fiscal risks are potential deviations of fiscal outcomes from the initial estimate and forecast during the budgetary planning. Even though a set of assumptions are used during the preparation of budgets and fiscal forecasts, the dynamics of the world economy particularly arising from current market uncertainties and global commodity price volatility, may result in material variation from the initial forecast. Hence, these circumstances can undermine the ability to meet the planned budget or fiscal stance. Furthermore, changes in policy due to domestic or external factors such as geopolitical tensions and climate change may also lead to possible fiscal slippage.

According to experts, it is not possible for a government to anticipate all risks that may affect its fiscal position. However, disclosure and reporting of policy decisions is key in managing fiscal risk, particularly those that may affect government finances in the future. Therefore, governments must undertake an exhaustive identification of material fiscal risks and closely monitor relevant indicators for mitigative actions.

Fiscal Risk in Malaysia's Context

Sources of fiscal risk

As an open and diversified economy, Malaysia is not completely insulated from global and domestic developments that have affected its fiscal outcomes over the last few decades. Therefore, fiscal risks in Malaysia mainly occur from either macroeconomic risks or specific risks, as follows:

Macroeconomic Risk

Macroeconomic risk arises from any changes in conditions which could directly alter the economic parameters such as GDP growth, commodity price and inflation, assumed in the budgetary planning and fiscal forecasting. These changes will cause a decline in revenue collection or an increase in spending as compared to the initial estimates and hence, may alter the fiscal target of the year. The following are examples of macroeconomic risk faced by Malaysia which affected fiscal outcomes of the particular year.

a. Exchange Rate Risk

   The Asian Financial Crisis 1997/98, which resulted in the collapse of currency value due to speculative attacks, triggered a negative impact on Malaysia's financial markets as well as the Government's financial position. As revenue performance worsened by 13.7% in 1998, the country's fiscal balance registered a deficit of 1.8% of GDP for the first time in five years. In response to the crisis, a mix of monetary and fiscal policy measures were introduced whereby the Government implemented capital controls together with the pegging of the ringgit in addition to injecting an economic stimulus package worth RM2 billion to cushion the impact of the recession.

b. External Shock Risk

During the period of 2006 to 2008, Malaysia's economy was performing well with favourable GDP growth of between 4.8% and 6.3%. However, in 2008, the US was hit by the subprime mortgage crisis which undermined the banking system. As a consequence, the world economy suffered from capital flight and a decline in global demand which led to the global financial crisis. Domestically, Malaysia fell into recession with GDP growth contracting by 1.5% in 2009. The crisis directly affected the Government's financial position with a 6.7% of GDP deficit in 2009, the largest since the economic crisis in the 1980s.

c. Commodities Price Risk

The global recovery post COVID-19 in early 2022 resulted in higher demand for commodities, food and other manufacturing goods. Nevertheless, rising regional tensions compounded by climate change have hampered the ability of global supply in fulfilling the increasing demands. Consequently, commodity prices surged in the first half of 2022. As commodities trade contribute significantly to Malaysia's economy, it exposes Malaysia to both upside and downside risks. As such, the high commodity prices have resulted in an increase in subsidies expenditure to RM80 billion as compared to the budgeted allocation of RM31 billion. The higher expenditure was part of the Government's efforts to control prices of commodity-based products, particularly fuel and cooking oil by providing additional subsidies to manage inflation.

Specific Risk

Specific risk is unique which affects a particular component of fiscal structure that may contribute to uncertainties in fiscal outcome. Changes in policy direction and demography, as well as events that cause contingent liabilities to materialise and natural disasters are some instances of specific risks. Malaysia had experienced such specific risks that directly altered the fiscal outcome in the short and medium terms, among others:

a. Specific Policy Risk

Changes in policy direction which directly impact the fiscal outcome is an example of specific policy risk. For instance, in 2015, the Government introduced the Goods and Service Tax (GST) to replace the sales tax and service tax (SST). The new indirect tax regime was part of the Government's efforts to increase revenue base and reduce dependency on fossil fuel-related revenue. The implementation of GST has resulted in an increase in the Government's revenue by more than RM20 billion. However, in 2018, the GST was abolished and the country reverted to the SST which reduced the actual 2018 revenue collection by RM7 billion from the forecasted revenue. Concurrently, the Government tax revenue over GDP dropped to 12%, lower than the global benchmark of 15%.

b. Contingent Liability Risk

There are a number of factors that can increase contingent liability risk either explicitly or implicitly such as crystallisation of government guarantees, mismanagement of state-owned entities, financial commitment from Public-Private Partnership (PPP) projects and legal obligations to the Government. Mismanagement and governance issues which contributed to the failure in 1Malaysia Development Berhad (1MDB) operations are examples of risk associated with state-owned entities. As a result, the Government's intervention was required to assume the 1MDB's debt obligation of more than RM50 billion.

c. Natural Disaster Risk

Natural disaster risk could arise due to uncontrollable circumstances or natural phenomenon. As an example, Malaysia experienced an increase in rainfall during the month of December 2021 which was attributed to the unprecedented weather conditions that caused major floods to occur around the country. The massive floods affected several highly-populated areas mainly in Klang Valley with total damages estimated at RM6.1 billion. As a result, the Government had to allocate about RM2 billion in the form of cash aids, basic amenities assistance and other support to assist those affected by the floods.

<u>Fiscal Risk Outlook</u>

The COVID-19 pandemic has impacted economic growth worldwide, which consequently exposes or aggravates most governments' fiscal vulnerability. In Malaysia, continuous risk identification and assessment are being carried out to ensure proper policy responses in mitigating the impact. Hence, the Government has identified potential fiscal risks in the coming years that may affect public finances, such as:

a. *Inflation and higher subsidy expenditure*

In 2022, an increase in inflation occurred due to the global supply-demand imbalances and supply disruptions caused by various factors such as geopolitical conflicts. Regionally, inflation was registered as high as 23.6% which could potentially affect the economy and people's well-being. Malaysia mitigated the risk of rising inflation by increasing subsidies expenditure to ensure a smooth recovery phase and avoid excessive burden to the *rakyat*. Nevertheless, the Government is reviewing the current subsidy mechanism to ensure a more targeted implementation and will continue towards fiscal consolidation as the economy stabilises, albeit gradually in the short term.

b. *Slower growth outlook*

The recovery phase in the first half of 2022 registered a more favourable global economic growth as compared to 2021 when COVID-19 infection was at its peak. However, slower growth momentum is expected in the second half of 2022 given regional political conflicts and slower economic growth in China. Hence, most international institutions have revised downward the global growth forecast for the remaining of 2022. Nevertheless, Malaysia steadfastly maintained growth momentum whereby the economy grew by 8.9% in second quarter 2022 and is expected to remain strong for the year. However, growth momentum is expected to moderate in 2023 in tandem with slower economic growth globally.

c. *Moderated commodity price in 2023*

A slower global economic growth trajectory is expected in 2023 which may moderate the high commodity price momentum. As commodities trade contribute a significant percentage to the total revenue, moderate commodity price could affect revenue collection in 2023. However, efforts to expand the Government's revenue base is being considered to mitigate the risks from lower commodity price.

d. *Policy tightening by the US Federal Reserve*

Policy tightening by the US Federal Reserve (Fed) may result in large foreign capital outflows from Malaysia. Subsequently, Malaysia has increased the Overnight Policy Rate (OPR) in response to the Fed rate tightening. The OPR hike has caused financing yields to increase hence adding further challenges to the Government's financing plans for development projects. As such, higher yields will also translate into higher burden for debt servicing expenses.

e. *Elevated debt burden*

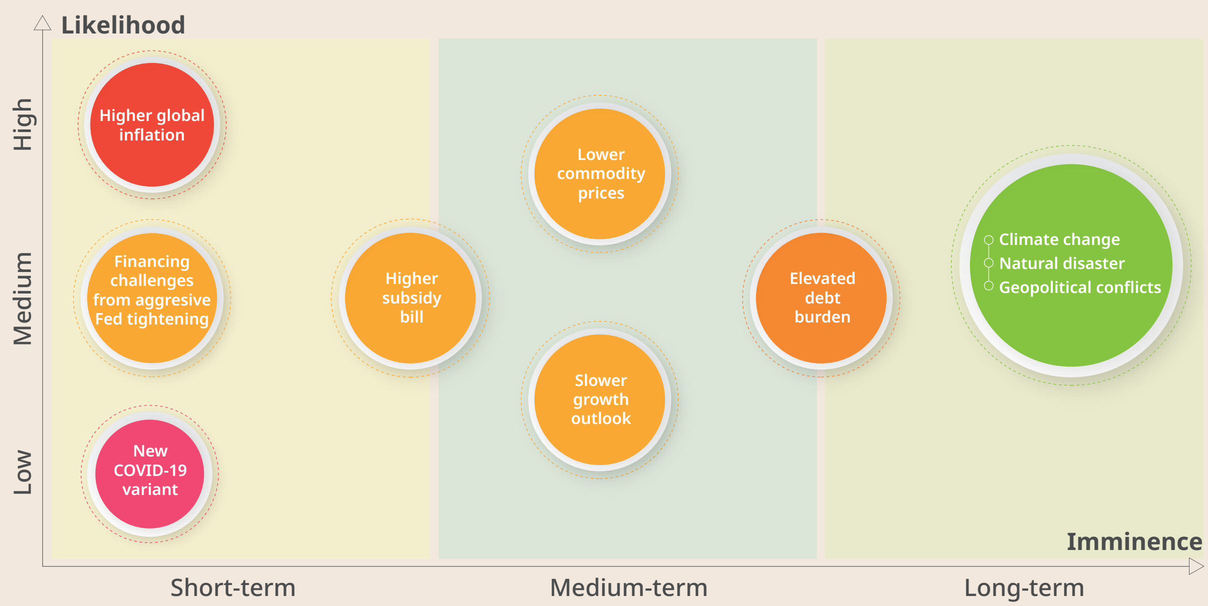
The crisis resulting from the COVID-19 pandemic necessitated the Government to introduce various economic stimulus packages and a substantial recovery plan to cushion the impact from the crisis. The measures undertaken had increased the Government's debt burden and consequently reduced the ability of the Government to swiftly react to any sudden economic shock in the short term. Nonetheless, ongoing fiscal consolidation efforts will be able to reduce the debt burden gradually.

f. *Extreme weather conditions*

In recent times, the effect of climate change has led to an increase in occurrences of extreme weather events. In Malaysia, more frequent flooding was experienced in urban areas resulting in substantial economic losses, which posed risk to government finances. As such, the Government had to provide additional spending on rescue missions and temporary aids to those affected. Therefore, a long-term mitigation plan is being developed to manage risk arising from natural disasters.

Some of the potential risks identified that may disrupt Malaysia's fiscal position is as shown in Figure 1.

FIGURE 1: *Malaysia Fiscal Risk Map*



Source: AMRO and Ministry of Finance, Malaysia

Managing Fiscal Risk

Current fiscal risk management framework

Malaysia's fiscal risk management framework was in place since independence and has gradually evolved. There was an exponential improvement in the country's fiscal risk management in the last few decades contributed by the lessons learnt from numerous episodes of crisis. Currently, the fiscal risk framework is divided into three main components, namely legal framework, administrative control and monitoring committee.

i. Legal framework

Legal framework for risk management is where the possibility of shock occurrence is eliminated at source through legislation. This is the most effective way of managing risk as any violation will lead to legal implications or sanctions. For example:

- The Federal Constitution and Financial Procedure Act 1957 [Act 61] does not allow the usage of debt instruments to finance operating expenditure;
- various financing-related acts[1] impose debt ceiling limit for each financing instrument. For example, total outstanding Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII) and Malaysian Islamic Treasury Bills (MITB) should not exceed 65% of GDP;
- establishment of the Disaster Trust Fund under Section 10, Act 61 to aid financial requirements post-disaster; and
- enactment of the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 [Act 830] to allow the Government to finance economic stimulus packages and recovery plans during COVID-19 pandemic.

ii. Administrative control

Administrative control is a less stringent approach for mitigating fiscal risk through administrative instructions or guidelines. Nevertheless, these instructions and guidelines are still legally binding as the power of authority that issues such instructions and guidelines is enshrined in various laws. For example:

- The Ministry of Finance had administratively imposed a ceiling on debt-service-charges (DSC) ratio not exceeding 15% of revenue under normal circumstances. However, this ratio was temporarily eased to allow additional borrowings to overcome the adverse effects on the economy and people's well-being from the COVID-19 pandemic; and
- The Ministry of Finance's priority to borrow in ringgit over other currencies, whereby currently 97% of government borrowings is in ringgit hence significantly reducing exposure to foreign exchange risk.

[1] Loan (Local) Act 1959 [Act 637], Government Funding Act 1983 [Act 275], Treasury Bills (Local) 1946 [Act 188] and External Loans Act 1963 [Act 403]

iii. Monitoring committee

Since the last financial crisis in 2008/2009, the Government has strengthened its fiscal management by establishing several key committees to guide the national fiscal policy. Apart from policy formulation, these committees are also mandated to monitor fiscal risks and recommend actions to be taken by the Government. The committees established include:

- The Fiscal Policy Committee (FPC) chaired by the Prime Minister is responsible to advise the Government on fiscal policy in the short and medium terms. As such, the FPC will deliberate on issues, including macroeconomic risks, before any fiscal target is set; and

- The Technical Committee on Fiscal Risk and Contingent Liability is a sub-committee that monitors any specific risk such as government guarantees, PPP financial commitments and implicit guarantees. Though not empowered to formulate any instructions or guidelines, this sub-committee can recommend suitable actions to the FPC in formulating policies to mitigate and manage fiscal risk.

FRA as a tool in enhancing fiscal risk management

Malaysia is committed to improve its fiscal risk management framework in accordance with international standards. The commitment, among others, is to enhance administrative controls by incorporating control measures as a part of the legal framework and enhancing fiscal risk reporting and governance.

The forthcoming FRA will include clauses that require the Government to determine provisions on policy decisions, circumstances and situations that will contribute to highly probable materialisation of contingent liabilities. The proposed Act may include a provision requiring the Government to publish a "Fiscal Risk Statement" and provide statutory limits on certain contingent liability instruments such as government guarantees.

Conclusion

Historically, Malaysia has a good track record in mitigating risks and responded swiftly to any economic shocks faced by the country. Though measures taken during the crisis impacted the fiscal outcome during the year, the Government will steadily pursue the fiscal consolidation path towards strengthening public finances. However, the need for a more comprehensive fiscal risk management is increasingly important in line with the changing dynamics of the world. Unexpected occurrence of events such as geopolitical crisis, spread of diseases and natural disasters can distort global trade supply chain, hence affecting the fiscal outcome of a country.

Furthermore, the world has also seen economic crisis cycle shortened year by year, limiting the time for governments to consolidate their fiscal position in embracing the next cycle of crisis. Therefore, effective management of fiscal risks will enable the Government to plan for sufficient fiscal space and prepare for any shocks. The introduction of the FRA will support the Government in enhancing fiscal risk management, while improving Malaysia's fiscal policy formulation in accordance with international standards and global best practices.

References:

ASEAN+3 Macroeconomic Research Office. (2022). *AMRO Annual Consultation Report, Malaysia 2022*. Retrieved from https://www.amro-asia.org/amros-2022-annual-consultation-report-on-malaysia/

Department of Statistics Malaysia. (2022). *Special Report on Impact of Floods in Malaysia 2021*. Retrieved from http://dosm.gov.my

Gaspar, V., Jaramilo, L., & Wingender, P., (2016). *Tax Capacity and Growth: Is there a Tipping Point?* IMF Working Paper Retrieved from https://www.imf.org/external/pubs/ft/wp/2016/wp16234.pdf

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

International Monetary Fund. (2020). *Managing Fiscal Risks Under Fiscal Stress*. Retrieved from https://www.imf.org/-/media/Files/Publications/covid19-special-notes/special-series-on-covid-19-managing-fiscal-risks-under-fiscal-stress.ashx

International Monetary Fund. (2022). *World Economic Outlook Update July 2022*. Retrieved from https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022

Rame, X. (2019). *Identifying and Managing Fiscal Risks*. In United Nations Economic and Social Commission for Western Asia (UNESCWA) Expert Group Meeting. Retrieved from https://www.unescwa.org/sites/default/files/event/ materials/egps_egm_may_2019_xavier_rame_session_5.pdf

World Bank. (2022). *Global Economic Prospects, June 2022*. Retrieved from https://www.worldbank.org/en/news/press-release/2022/06/07/stagflation-risk-rises-amid-sharp-slowdown-in-growth-energy-markets

Debt and Liabilities Exposure

Malaysia is committed to provide comprehensive reporting on debt and liabilities exposure in line with the standards and statistical treatments under the International Public Sector Accounting Standards (IPSAS) and International Monetary Fund's Public Sector Debt Statistics. Currently, Malaysia reports debt and liabilities exposure comprising Federal Government debt, committed guarantees, 1MDB's debt, commitments from PPP, private finance initiatives (PFI) and projects under PBLT Sdn. Bhd. (PBLT). As at end-June 2022, total debt and liabilities exposure of the Government was estimated at RM1,420.4 billion, or 82.9% of GDP.

TABLE 5.1. *Federal Government Debt and Liabilities Exposure, 2021 – 2022*

COMPONENT	RM BILLION		SHARE OF GDP (%)	
	2021	2022[1]	2021	2022[1]
Federal Government debt	979.8	1,045.0	*63.4*	*61.0*
Committed guarantees	197.3	199.9	*12.8*	*11.7*
1Malaysia Development Berhad	32.1	25.9	*2.1*	*1.5*
Other liabilities (PPP, PFI, PBLT)	151.1	149.6	*9.8*	*8.7*
Total	**1,360.3**	**1,420.4**	***88.1***	***82.9***

[1] End-June 2022
Source: Ministry of Finance, Malaysia

Government Guarantees

The Federal Government provides GG, as a form of financial assistance, to government-related entities in order to execute public-centric infrastructure or strategic projects which contribute to national development and economic enhancement. Despite being financially feasible, most of these projects and programmes are funded through GG arrangements as these ventures are not commercially viable due to high cost, socially oriented, lengthy gestation period, and subject to some form of controls by the Government. Nonetheless, GG recipient entities remain accountable to repayment obligations while the Government serves as a secondary obligor or guarantor. Currently, GG is administered according to the Loans Guarantee (Bodies Corporate) Act 1965 [Act 96] which requires each guaranteed recipient to be gazetted as a body corporate under the Act.

As at end-June 2022, total outstanding GGs moderated to RM307 billion, or 17.9% of GDP, as compared to RM310.4 billion or 20.1% of GDP as at end-2021. The slight reduction as compared to end-2021 was attributed to the completion of financing term for several GG recipients such as Perbadanan Kemajuan Negeri Pahang and Johor Corporation as well as significant repayment of outstanding principal by Khazanah Nasional Berhad. However, there were new issuances by DanaInfra Nasional Berhad (DanaInfra) for public transportation projects and also Lembaga Kemajuan Tanah Persekutuan (FELDA) for restructuring and rehabilitation exercise.

Meanwhile, on a segmental basis, infrastructure was the highest GG recipient (56%) followed by services (26.7%), investment holding (7.6%), utilities (5.4%) and others (4.3%), in which the 10 main outstanding GGs constituted more than 85% of total guarantees. In terms of currency denomination, more than 90% of the GGs is in ringgit while the remaining comprises a mix of other currencies including renminbi, yen and the US dollar, thus minimising currency risk exposure to the Government.

TABLE 5.2. *Major Recipients of Loan Guarantees, 2021 – 2022*

ENTITY	RM MILLION		SHARE (%)		SHARE OF GDP (%)	
	2021	2022[1]	2021	2022[1]	2021	2022[1]
Total loan guarantees	**310,387**	**306,983**	***100.0***	***100.0***	***20.1***	***17.9***
of which:						
DanaInfra Nasional Berhad	78,765	80,045	*25.4*	*26.1*	*5.1*	*4.7*
Prasarana Malaysia Berhad	40,164	41,614	*12.9*	*13.5*	*2.6*	*2.4*
National Higher Education Fund Corporation	40,000	39,000	*12.9*	*12.7*	*2.6*	*2.3*
Public Sector Home Financing Board	38,550	37,750	*12.4*	*12.3*	*2.5*	*2.2*
Malaysia Rail Link Sdn. Bhd.	25,726	27,034	*8.3*	*8.8*	*1.7*	*1.6*
Projek Lebuhraya Usahasama Berhad	11,000	11,000	*3.5*	*3.6*	*0.7*	*0.6*
Khazanah Nasional Berhad	9,000	8,000	*2.9*	*2.6*	*0.6*	*0.5*
Federal Land Development Authority (FELDA)	6,420	7,918	*2.1*	*2.6*	*0.4*	*0.4*
Suria Strategic Energy Resources Sdn. Bhd.	7,179	6,988	*2.3*	*2.3*	*0.4*	*0.4*
Pengurusan Air SPV Berhad	8,025	6,775	*2.6*	*2.2*	*0.5*	*0.4*
Total of major recipients	**264,829**	**266,124**	***85.3***	***86.7***	***17.1***	***15.5***

[1] End-June 2022
Source: Ministry of Finance, Malaysia

As at end-June 2022, the weighted average maturity for GG financing stood at 10.9 years where the maturity profile is balanced between short/medium (less than 10 years: 52%) and long term (more than 10 years: 48%).

Out of the total outstanding GG, 65% are **committed guarantees** whereby the Government provides financial assistance in a form of temporary cash flow support during construction, working capital assistance, interest repayment or operational subsidies in order to sustain ongoing projects. In line with the Government's efforts to enhance transparency in reporting, the scope of committed guarantee was widened to include any guarantee provided under Section 14 of the Financial Procedure Act 1957 [Act 61]. Committed guarantees as at end-June 2022 increased slightly to RM199.9 billion (end-2021: RM197.3 billion). The increase in committed guarantee was attributed to new financing issuance by existing entities such as DanaInfra, Prasarana Malaysia Berhad and Malaysia Rail Link Sdn. Bhd. for ongoing transportation projects. As such, there was no additional entity classified as committed guarantees during this period.

With the resumption of most economic activities since the beginning of 2022, the risk of GG recipients requiring financial assistance from the Government has reduced considerably. However, against the backdrop of rising inflation, constant efforts by the Government to ease the burden of the *rakyat* through subsidies can affect entities in certain sectors such as utilities sector. Thus, continuous risk assessment is necessary to pre-empt the need for further Government assistance in view of the volatile economic trajectory globally.

TABLE 5.3. *Committed Guarantees, 2021 – 2022*

ENTITY	RM MILLION		SHARE (%)	
	2021	2022[2]	2021	2022[2]
DanaInfra Nasional Berhad	78,765	80,045	39.9	40.0
Prasarana Malaysia Berhad	40,164	41,614	20.3	20.8
Malaysia Rail Link Sdn. Bhd.[1]	25,726	27,034	13.0	13.5
Urusharta Jamaah Sdn. Bhd.	21,526	21,957	10.9	11.0
Suria Strategic Energy Resources Sdn. Bhd.[1]	7,179	6,988	3.6	3.5
GovCo Holdings Berhad	5,700	5,075	2.9	2.5
Jambatan Kedua Sdn. Bhd.[1]	5,470	5,473	2.8	2.7
Turus Pesawat Sdn. Bhd.	5,310	5,310	2.7	2.7
MKD Kencana Sdn. Bhd.	4,500	4,500	2.3	2.3
TRX City Sdn. Bhd.	1,141	1,141	0.6	0.6
SRC International Sdn. Bhd.	985	-	0.5	-
Sentuhan Budiman Sdn. Bhd.	700	650	0.4	0.3
Assets Global Network Sdn. Bhd.	152	101	0.1	0.1
Total	**197,318**	**199,888**	**100.0**	**100.0**

[1] Subject to exchange rate valuation
[2] End-June 2022
Source: Ministry of Finance, Malaysia

1Malaysia Development Berhad

In 2009, 1MDB was established as a sovereign investment fund with the objective to undertake strategic investment initiatives and drive the national development agenda. However, the company's ineffective business model, which mainly leveraged on debt, and subsequent entanglement in financial mismanagement have resulted in financial complications and necessitated intervention from the Government. The outstanding debt of 1MDB as at end-June 2022 has reduced to RM25.9 billion following the settlement of the 1MDB Energy Ltd.'s debt obligation in May 2022.

The Government's initiatives to recover 1MDB's assets involve extensive joint investigative works, negotiations as well as initiation of litigation processes. In 2019, the repatriation of 1MDB's assets began to flow in and has amassed a total of RM19.3 billion as at end-June 2022. Several main assets that have been recovered and repatriated include seized physical assets and monies as well as settlement payments with the United States' Department of Justice; proceeds from settlement with particular parties namely financial institutions and audit firms; and recovery of frozen cash assets from individuals and companies. Furthermore, the former arranger of 1MDB's bond transactions, Goldman Sachs has agreed to a settlement amounting to USD2.5 billion and will provide assistance to the Government in guaranteed asset recovery estimated at USD1.4 billion.

The recovered assets, which were placed into Assets Recovery Trust Account, have been utilised to meet 1MDB's financial obligations and debt repayment. The remaining balance in the Trust Account which is approximately RM8.8 billion as at end-June 2022 will be prioritised for the upcoming settlement of 1MDB Energy (Langat) Ltd.'s bond in October 2022. As at end-June 2022, 1MDB's outstanding financial obligations are estimated at RM31.6 billion, comprising debt principals of RM25.9 billion and projected interests or profits of RM5.7 billion.

TABLE 5.4. *1MDB's Debt, as at end-June 2022*

COMPONENT	RATE (%)	MATURITY PERIOD	PRINCIPAL	
			(USD BILLION)	(RM BILLION)
IPIC-MOF Inc.				
1MDB Energy (Langat) Ltd bond	5.75	October 2022	1.75	7.7[1]
Letter of Support				
Global bond	4.44	March 2023	3.00	13.2[1]
Government Guarantee				
Sukuk	5.75	May 2039	-	5.0
Total				**25.9**

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

FIGURE 5.1: *1MDB's Asset Recovery Progress*

Source: Ministry of Finance, Malaysia

Other Liabilities

Apart from the Federal Government debt, committed guarantees as well as 1MDB's obligations, other financial liabilities of the Government include cash commitments projections of PPP projects, financial obligations of PFI projects, and financing by PBLT. These liabilities are disclosed and reported as part of the Government's effort to enhance transparency and improve risk management initiatives.

PPP projects through the privatisation policy have been introduced as part of the nation's development agenda. The types of PPP projects implemented in Malaysia include construction of physical infrastructure, lease management, provision of services, maintenance of federal roads as well as development and maintenance of IT infrastructure. As at end-June 2022, there were a total of 105 PPP projects which require financial allocation from the Government with an estimated cash commitment of RM98.4 billion. During the first half 2022, two concession projects were approved namely performance-based maintenance works for federal roads and implementation of electronic land management system (e-Tanah) for Terengganu.

PFI projects were initiated by the Government to expedite infrastructure development projects such as refurbishment of schools, universities and training centres as well as repair and maintenance of Federal Government buildings. The source of financing for PFI projects is from the Employees Provident Fund and Retirement Fund (Incorporated) while the Government provides allocation for the financing repayment. Outstanding PFI liabilities as at end-June 2022 were estimated at RM48.1 billion.

PBLT was set up in 2005 particularly to accelerate the implementation of Royal Malaysia Police infrastructure projects in enhancing the living standards and service quality of policemen. PBLT has raised several sukuks for financing infrastructure projects which include construction of police stations, training centres and living quarters. The outstanding liabilities of PBLT were estimated at RM3.2 billion as at end-June 2022.

Conclusion

The coverage in reporting the Federal Government's liabilities reflects the overall financial obligation of the Government. The Government continues to take a proactive approach in monitoring its liabilities and risk exposure in order to assess and improve the level of indebtedness while ensuring prudent management of its debt and liabilities.
The reporting on liabilities also shows the Government's commitment to enhance transparency, accountability and credibility in fiscal management.

FIGURE 5.1. *Outstanding Loan Guarantees*

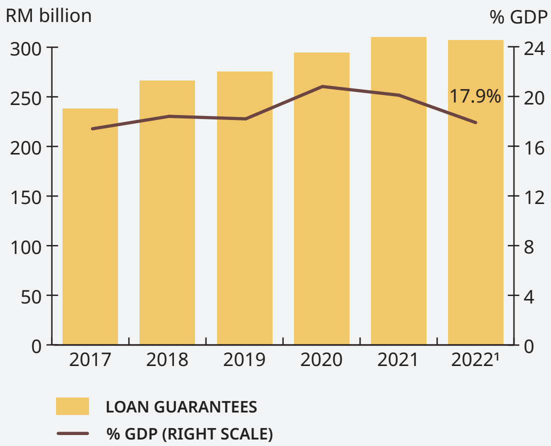


FIGURE 5.2. *Maturity Profile of Loan Guarantees*[1]

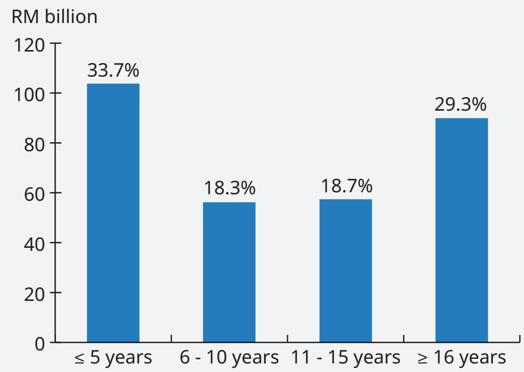


FIGURE 5.3. *Loan Guarantees by Segment*[1]

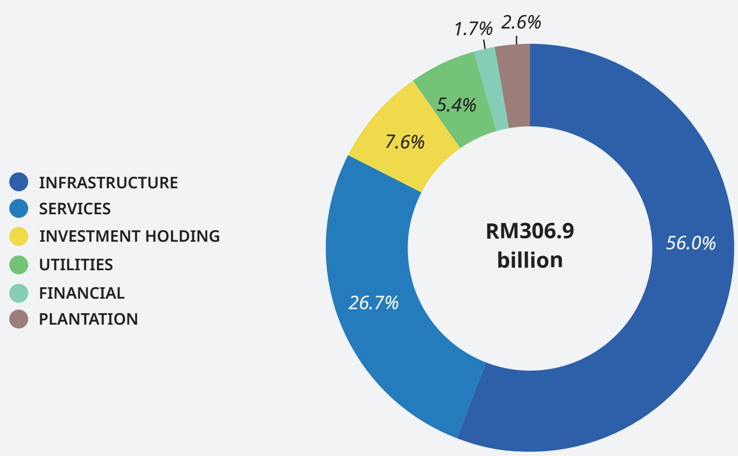
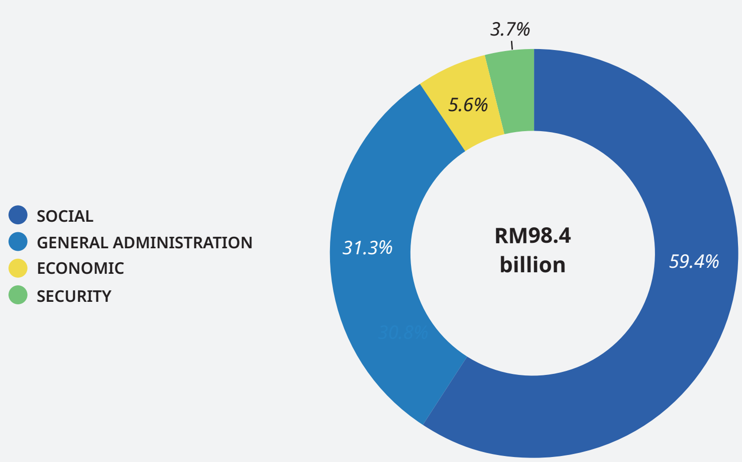


FIGURE 5.4. *Outstanding PPP Obligations by Sector*[1]



[1]End-June 2022

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