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SECTION 5

Fiscal Risk and Liability

Overview

The prolonged COVID-19 pandemic has disrupted business activities and the livelihood of the *rakyat*. The situation requires the Government to further support economic activity through various stimulus and assistance packages, either from direct fiscal injection or non-fiscal measures such as special relief funds and micro-credit schemes as well as through quasi-fiscal instruments such as guarantee facilities for businesses. The current situation, where the pandemic is still unfolding, and the provision of fiscal stimulus and assistance measures needs to be continued, has elevated the Government's risk exposure. Nevertheless, mitigating measures, in particular rigorous evaluation as well as continuous monitoring and adjustments of financials and debts, are implemented to reduce the impact of the exposure.

Government guarantees continue to increase, albeit at a much slower pace, as existing development and infrastructure projects are being carried out sparingly. The continuation of strategic infrastructure projects is to catalyse recovery momentum while spurring economic activities amid the pandemic. However, the extended movement restrictions imposed to curb the spread of the pandemic have increased the Government's risk exposure in terms of support provided to entities operating in the services sector, such as the public transport operators and highway concessionaires. The situation demands the Government to heighten the monitoring and evaluation of financial conditions of these companies to quantify the risks and formulate mitigating measures to reduce its fiscal exposure.

In the effort to contain the exposure of other liabilities, the Government has proceeded with the recovery of 1Malaysia Development Berhad's (1MDB) assets. The actions consist of negotiations with related parties, legal proceedings and civil suits. The recovery exercise has enabled the Government to reduce the financial impact from 1MDB's

liabilities on the fiscal position. The Government will continue to pursue recovery actions to mitigate this risk exposure from 1MDB's obligations.

Debt and Liabilities Exposure

The debt and liabilities exposure of the Federal Government discloses the overall indebtedness of the Government. The position comprises the Federal Government debt and other liabilities in the form of committed guarantees, 1MDB's debt as well as cash commitments of projects under public-private partnership (PPP), private finance initiative (PFI) and PBLT Sdn. Bhd. (PBLT). The reporting of a comprehensive debt and liabilities position is also consistent with the Government's efforts to progress towards accrual accounting standards and statistical treatment under the International Public Sector Accounting Standards (IPSAS) as well as the Public Sector Debt Statistics by the International Monetary Fund (IMF). As at end-June 2021, the Federal Government debt and liabilities exposure was estimated at RM1,333.7 billion or 88.1% to GDP.

TABLE 5.1. Federal Government Debt and Liabilities Exposure, 2020 – 2021

COMPONENT	RM BILLION		SHARE TO GDP (%)	
	2020	2021 ¹	2020	2021 ¹
Federal Government debt	879.6	958.4	62.1	63.3
Committed guarantees	185.7	190.4	13.1	12.6
1MDB	31.1	32.0	2.2	2.1
Other liabilities (PPP, PFI, PBLT)	171.8	152.9	12.1	10.1
Total	1,268.2	1,333.7	89.5	88.1

¹ End-June

Source: Ministry of Finance, Malaysia

Government Guarantees

Government guarantee (GG) is one of the fiscal tools mobilised by the Federal Government to provide a guarantee on financing raised by an entity to execute strategic infrastructure projects and programmes which will boost economic and social impact on national development. GG issuance is governed under the Loans Guarantee (Bodies Corporate) Act 1965 [Act 96], which requires each guaranteed entity to be gazetted as a body corporate under the Act. Currently, the GG facility is only granted to government-related entities, such as government-linked companies (GLCs), statutory bodies as well as agencies under state governments.

As at end-June 2021, total outstanding GGs increased slightly to RM300.4 billion or 19.8% to GDP (2020: RM294.7 billion; 20.8% to GDP), mainly attributed to new issuances by the Public Sector Home Financing Board (LPPSA) and DanaInfra Nasional Berhad (DanaInfra) to finance civil servants housing

loan facility and ongoing public infrastructure projects, respectively. In terms of proportion by segment, more than half (54.2%) of the GGs issued are for infrastructure-related financing, followed by services (26.6%), investment holding (8.3%), utilities (6.8%) and others (4.1%). The ten main GGs constituted more than 80% of the total guarantees.

The weighted average time to maturity of the GGs stood at 10.9 years as at end-June 2021, while in terms of maturity profile, 52.8% is expected to mature within ten years, whereas 47.2% is expected to mature beyond ten years. Currency risk is largely reduced as more than 90% of the GGs is denominated in ringgit while the remaining is a mixture of other currencies, such as renminbi, yen and the US dollar.

Conventionally, GG is a facility given to financially sustainable entities to undertake strategic projects that have a longer gestation period. It also facilitates the entities in accessing borrowing at a more competitive

TABLE 5.2. Major Recipients of Loan Guarantees, 2020 – 2021

ENTITY	RM MILLION		SHARE (%)		SHARE TO GDP (%)	
	2020	2021 ¹	2020	2021 ¹	2020	2021 ¹
Total loan guarantees	294,675	300,435	100.0	100.0	20.8	19.8
<i>of which:</i>						
DanaInfra Nasional Berhad	72,320	76,020	24.5	25.3	5.1	5.0
National Higher Education Fund Corporation	39,800	40,000	13.5	13.3	2.8	2.6
Prasarana Malaysia Berhad	38,914	38,914	13.2	12.9	2.8	2.6
Public Sector Home Financing Board	30,150	34,150	10.2	11.4	2.1	2.3
Malaysia Rail Link Sdn. Bhd.	21,530	23,177	7.3	7.7	1.5	1.5
Projek Lebuhraya Usahasama Berhad	11,000	11,000	3.7	3.7	0.8	0.7
Khazanah Nasional Berhad	11,300	9,000	3.8	3.0	0.8	0.6
Pengurusan Air SPV Berhad	9,760	8,025	3.3	2.7	0.7	0.5
Suria Strategic Energy Resources Sdn. Bhd.	6,951	7,276	2.4	2.4	0.5	0.5
GovCo Holdings Berhad	7,200	5,700	2.5	1.9	0.5	0.4
Total of major recipients	248,925	253,262	84.4	84.3	17.6	16.7

¹ End-June

Source: Ministry of Finance, Malaysia

financing rate. However, in certain situations, entities with GG facilities may also require funding from the Government to assist them in debt servicing, working capital assistance or cash flow support. Hence, GGs provided to such entities are categorised as **committed guarantees**. The entities under this category are provided guarantees under Act 96 or financial undertakings under Section 14¹ of the Financial Procedure Act 1957 [Act 61].

As at end-June 2021, committed guarantees saw a slight increase to RM190.4 billion (12.6% to GDP) from RM185.7 billion (13.1% to GDP) in 2020, primarily due to issuances by DanaInfra and Malaysia Rail Link Sdn. Bhd. in carrying out existing transport infrastructure projects. With various movement restrictions enforced to contain the spread of COVID-19, there is an increased risk from GG recipients, particularly those operating in the services sector. Hence,

Turus Pesawat Sdn. Bhd., a Minister of Finance Incorporated (MOF Inc.) company that funds aircraft procurement for Malaysia Airlines, was classified as a committed guarantee, in line with its restructuring exercise, which involves funding from the Government for debt repayment.

In this regard, the Government will continuously monitor the impact of the COVID-19 crisis on all GG recipients in assessing the risks of the entities requiring assistance from the Government. Concurrently, the financial performance of the companies under committed guarantees is closely monitored while ensuring implementation of a recovery plan to reduce the risk exposure to the Government. The entities will be removed from the list under committed guarantees once they no longer require financial assistance from the Government.

TABLE 5.3. *Committed Guarantees, 2020 – 2021*

ENTITY	RM MILLION		SHARE (%)	
	2020	2021 ¹	2020	2021 ¹
DanaInfra Nasional Berhad	72,320	76,020	38.9	39.9
Prasarana Malaysia Berhad	38,914	38,914	21.0	20.4
Malaysia Rail Link Sdn. Bhd. ²	21,530	23,177	11.6	12.2
Urusharta Jamaah Sdn. Bhd.	20,683	21,097	11.1	11.1
Suria Strategic Energy Resources Sdn. Bhd. ²	6,951	7,276	3.7	3.8
GovCo Holdings Berhad	7,200	5,700	3.9	3.0
Jambatan Kedua Sdn. Bhd. ²	5,528	5,514	3.0	2.9
Turus Pesawat Sdn. Bhd.	5,310	5,310	2.9	2.8
MKD Kencana Sdn. Bhd.	3,500	4,500	1.9	2.4
SRC International Sdn. Bhd.	2,485	1,785	1.4	0.9
Sentuhan Budiman Sdn. Bhd.	800	750	0.4	0.4
TRX City Sdn. Bhd.	253	192	0.1	0.1
Assets Global Network Sdn. Bhd.	253	202	0.1	0.1
Total	185,727	190,437	100.0	100.0

¹ End-June

² Subject to exchange rate valuation

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.

1Malaysia Development Berhad

1MDB was established as a MOF Inc. company in 2009 to spearhead strategic development in the country. However, its heavy reliance on debt capital and poor corporate governance led to cash flow complications beginning late-2014 and subsequently requiring assistance from the Government. As at end-June 2021, 1MDB's outstanding debt remained at RM32 billion.

A total of RM18.2 billion worth of assets linked to 1MDB has since been seized or recovered and placed into the Assets Recovery Trust Account under the custody of the Accountant General's Department. The assets recovered include the seizure of physical assets and cash as well as cash settlements by related parties with the United States Department of Justice, settlement proceeds from financial institutions and other parties such as audit firms, and cash recovered from individuals and companies. In addition to the settlement proceeds paid to the Government, the former arranger of bond issuances for 1MDB, Goldman Sachs, will assist and guarantee a minimum of USD1.4 billion asset recovery.

As of September 2021, the Government has paid up to RM12.8 billion for 1MDB's financial commitments and debt servicing via loans and advances from the Government or MOF

TABLE 5.4. 1MDB's Debt, as at end-June 2021

COMPONENT	RATE (%)	MATURITY PERIOD	PRINCIPAL	
			(USD BILLION)	(RM BILLION)
Government Guarantee				
Sukuk	5.75	May 2039	-	5.00
IPIC-MOF Inc.				
1MDB Energy Ltd	5.99	May 2022	1.75	7.27 ¹
1MDB Energy (Langkat) Ltd	5.75	October 2022	1.75	7.27 ¹
Letter of Support				
Global bond	4.44	March 2023	3.00	12.46 ¹
Total				32.00

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

Inc., amounting to almost RM10 billion as well as utilisation of the Trust Account. The outstanding balance of the Trust Account, which also earns placement profits (*hibah*), stood at RM15.3 billion and is currently sufficient to cover 1MDB's obligations up to 2022. 1MDB's overall outstanding financial obligations, composing of both principal (RM32.2 billion) and interests or profits on the debt (RM7.1 billion), amounted to RM39.3 billion.

1MDB'S Asset Recovery Progress



Other Liabilities

Other financial liabilities of the Government include commitments under the PPP and PFI projects as well as financing raised by PBLT to develop infrastructure projects for the Royal Malaysia Police. Projects implemented under the PPP approach may involve a certain fiscal cost to the Government, while some are fully funded by the private sector. As at end-June 2021, one new project was added to the list of PPP projects, namely electronic land management system (e-Tanah) for Perak with a commitment of about RM249 million up to 2032. The total outstanding cash commitments based on 98 PPP projects agreements from 2021-2047 were estimated at RM102.8 billion.

Liabilities under PFI projects are in the form of financing provided by the Employees Provident Fund (EPF) and Retirement Fund Incorporated (KWAP) to facilitate the implementation of infrastructure development projects, including construction and refurbishment of schools, hospitals, universities and training centres as well as maintenance of government buildings. As at end-June 2021, outstanding PFI liabilities were estimated at RM46.1 billion.

PBLT, a wholly-owned company by MOF Inc., was established in 2005 to raise funding and undertake infrastructure projects, including the construction of quarters, police stations, training centres and other facilities for the police force. There has been no new funding raised by PBLT since 2015, and the outstanding liabilities of PBLT were estimated at RM4 billion as at end-June 2021.

Conclusion

Moving forward, risk disclosure by the Government will continue to be enhanced to provide a more comprehensive assessment of the Government's exposure. With heightened risk exposure stemming from the effects of the pandemic, increased oversight and scrutiny as well as the formulation of mitigation measures is pertinent to cushion the impact on Government's fiscal position. As such, the Government is embarking on reforms to strengthen its fiscal discipline and enhance its governance, particularly in the management of state-owned enterprises, to minimise the risk exposure from possible distressed companies.

FIGURE 5.1. Outstanding Loan Guarantees

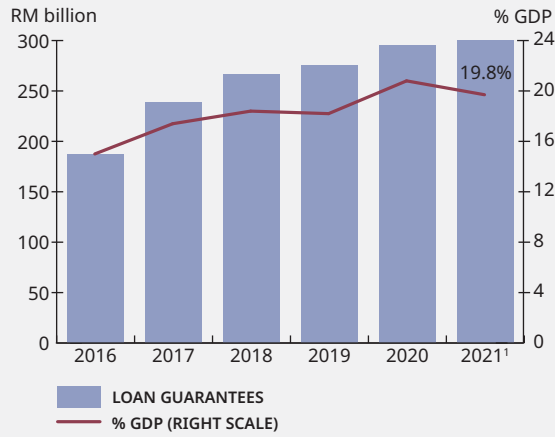


FIGURE 5.2. Maturity Profile of Loan Guarantees¹

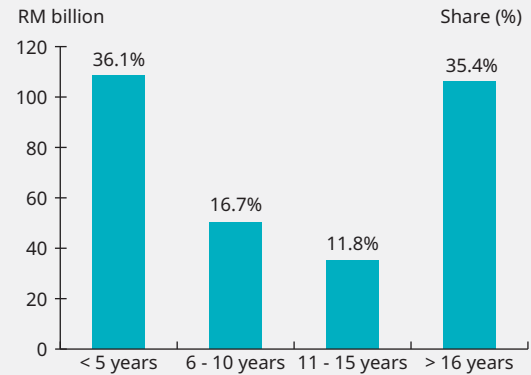


FIGURE 5.3. Loan Guarantees by Segment¹

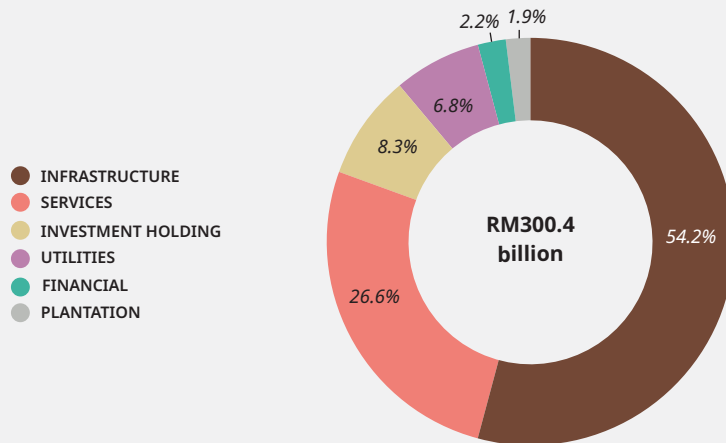
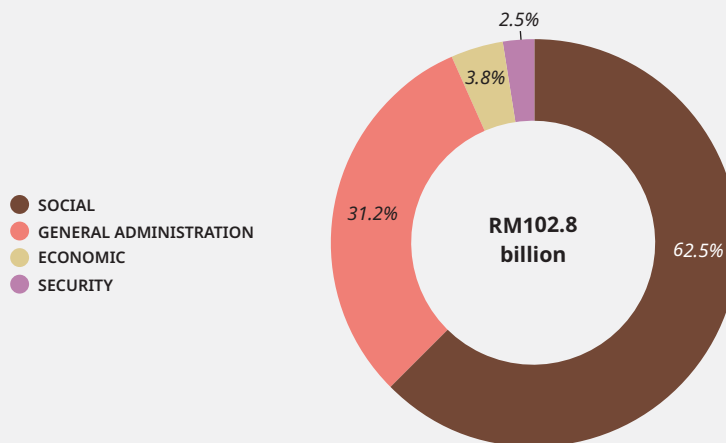


FIGURE 5.4. Outstanding PPP Obligations by Sector¹



¹End-June 2021

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