

SECTION 5

Fiscal Risk and Liabilities

179 OVERVIEW

179 DEBT AND LIABILITIES EXPOSURE

180 FINANCIAL GUARANTEES

Feature Article - Reining In Risk: An Overview of Public Guarantee Schemes

189 COMMITTED GUARANTEES

190 OTHER LIABILITIES

190 RISK MITIGATION ON LIABILITIES EXPOSURE

191 CONCLUSION

SECTION 5

Fiscal Risk and Liabilities

Overview

Recent global developments underscore the importance of proactive fiscal risk management. Heightened geopolitical tensions as well as global trade fragmentation arising from the broader effects of protectionist measures are reshaping international supply chains and trade dynamics. These uncertainties, coupled with moderating commodity prices, fluctuating financial markets, and escalating climate-related shocks, could potentially impact Malaysia's growth outlook and hinder the pace of fiscal consolidation.

On the domestic front, the Thirteenth Malaysia Plan, 2026 – 2030 (Thirteenth Plan) outlines priorities to intensify infrastructure development, enhance support for vulnerable households, and accelerate the energy transition. Execution of the Thirteenth Plan requires substantial funding, among others, via direct budgetary allocations, quasi-fiscal instruments and public-private partnership initiatives. Therefore, the Government has to be vigilant in managing and mitigating the risk exposure to minimize the crystallisation of contingent liabilities into direct fiscal costs. Likewise, rising expectations for greater transparency and accountability further reinforce the importance of instituting a comprehensive planning and governance framework for the utilisation of quasi-fiscal instruments and management of state-owned entities.

Against this backdrop, the Public Finance and Fiscal Responsibility Act 2023 [Act 850] has provided enhanced framework for fiscal risk

management, which incorporates clear policy frameworks, robust governance structures and comprehensive reporting requirements. Furthermore, the approval of Government Procurement Bill 2025, together with the enactment of various upcoming legislations related to public-private partnerships and state-owned entities, will complement the foundation laid by Act 850. Moving forward, prudent management of debt and liabilities will be critical in ensuring adequate fiscal space, enhancing resilience against external shocks, and maintaining investor confidence to support sustainable and inclusive national development agenda.

Debt and Liabilities Exposure

The overall debt and liabilities consist of Federal Government debt, committed guarantees, and financial obligations from public-private partnership (PPP) as well as private finance initiative (PFI). As at end-June 2025, the combined debt and liabilities exposure amounted to RM1,694.6 billion, or 84.1% of GDP. The comprehensive reporting of Federal Government debt and liabilities since 2018 is in line with the Government's responsibility to enhance transparency and thoroughness of fiscal reporting. This aligns with international standards and recognition, namely the International Public Sector Accounting Standards (IPSAS) and the IMF's Public Sector Debt Statistics framework. Currently, the comprehensive disclosure of debt and liabilities has been enhanced in accordance with the requirements under Act 850, enabling effective and accountable management of liabilities.

TABLE 5.1. Federal Government Debt and Liabilities Exposure, 2024 – 2025

COMPONENT	RM MILLION		SHARE OF GDP (%)	
	2024	2025 ¹	2024	2025 ¹
Federal Government debt	1,247,614	1,304,176	64.6	64.7
Committed guarantees	236,229	237,084	12.2	11.8
Other liabilities	148,584	153,383	7.7	7.6
Total	1,632,427	1,694,643	84.5	84.1

¹ End-June 2025

Source: Ministry of Finance, Malaysia

Financial Guarantees

Malaysia's economic and infrastructure development is funded mainly through public investments with active private sector participation. Essential public goods such as education, healthcare, security, and social welfare are largely financed through direct fiscal allocation, while quasi-fiscal instruments are deployed to invest in strategic infrastructure projects and programmes. This strategy helps ease fiscal pressures, drives economic progress and promotes sectoral growth, as well as fulfils the needs of the rakyat. Financial guarantees are one of the quasi-fiscal instruments, being extended to enable funding of selected strategic infrastructure projects and targeted lending programmes.

Under the existing legal framework, Financial Guarantees are administered under four acts, namely the 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]. Following the introduction of Act 850, the scope and reporting of Financial Guarantees is unified to include all guarantee instruments issued under these four legislations. As at end-June 2025, outstanding Financial Guarantees amounted to RM424.7 billion, or 21.1% of GDP, maintaining below the 25% limit stipulated in the First Schedule of Act 850.

TABLE 5.2. Financial Guarantees, 2024 – 2025

COMPONENT	RM MILLION		SHARE OF GDP (%)	
	2024	2025 ¹	2024	2025 ¹
Guarantees under Act 96	332,819	336,078	17.2	16.7
Guarantees under Act 61	83,990	88,633	4.4	4.4
Undertakings and Supports	30,675	31,151	1.6	1.5
Guarantee Schemes	53,315	57,482	2.8	2.9
Total	416,809	424,711	21.6	21.1

¹ End-June 2025

Source: Ministry of Finance, Malaysia

Guarantees under Act 96

The guarantees issued under Act 96 is part of Financial Guarantees, which is extended to selected government-linked companies (GLCs) and statutory bodies to finance infrastructure projects, implement targeted lending programmes or embark on strategic investments. Such ventures especially public transportation, education and water supply, while economically feasible in the long term, are often not commercially viable without Government support due to policy considerations, high capital costs, and extended gestation periods. This two-pronged approach could significantly reduce the cost of funding, while optimising the resources to ensure continuous nation building. As at end-June 2025, guarantees under Act 96 grew marginally by 1% to RM336.1 billion, or 16.7% of GDP, due to prudent and selective deployment of the guarantees, with disbursements only for existing projects and programmes.

Based on segmental distribution, infrastructure remains the largest recipient, accounting for 59.6% of total outstanding guarantees, primarily for major public transportation projects such as the East Coast Rail Link (ECRL), Mass Rapid Transit (MRT), Light Rail Transit 3 (LRT3), highways and home financing. The services sector constitutes the second-

TABLE 5.3. *Major Recipients of Guarantees under Act 96, 2024 – 2025*

ENTITY	RM MILLION		SHARE (%)		SHARE OF GDP (%)	
	2024	2025 ²	2024	2025 ²	2024	2025 ²
DanaInfra Nasional Berhad	85,100	87,000	25.6	25.9	4.4	4.3
Lembaga Pembiayaan Perumahan Sektor Awam	48,600	53,650	14.6	16.0	2.5	2.7
Malaysia Rail Link Sdn. Bhd. ¹	50,303	52,373	15.1	15.6	2.6	2.6
Prasarana Malaysia Berhad	41,955	42,155	12.6	12.5	2.2	2.1
Perbadanan Tabung Pendidikan Tinggi Nasional	41,450	39,950	12.5	11.9	2.1	2.0
Projek Lebuhraya Usahasama Berhad	11,000	11,000	3.3	3.3	0.6	0.6
Federal Land Development Authority (FELDA)	6,928	6,513	2.1	1.9	0.4	0.3
Pengurusan Air SPV Berhad	6,450	6,050	1.9	1.8	0.3	0.3
Suria Strategic Energy Resources Sdn. Bhd. ¹	5,422	5,005	1.6	1.5	0.3	0.2
1Malaysia Development Berhad	5,000	5,000	1.5	1.5	0.3	0.2
Total of top 10 recipients	302,208	308,696	90.8	91.9	15.7	15.3
Other Recipients	30,611	27,382	9.2	8.1	1.5	1.4
Total guarantees	332,819	336,078	100.0	100.0	17.2	16.7

¹ Subject to exchange rate valuation² End-June 2025

Source: Ministry of Finance, Malaysia

largest share at 29.4%, largely for tertiary student loans and civil servants' home financing schemes, followed by utilities (4.4%), investment holdings (3.7%), plantations (1.9%), and financial (1%). The 10 largest recipients account for over 91.9% of Act 96 guarantees, where 88.5% of the guarantees are denominated in ringgit, mitigating the Government's exposure to currency exchange risk. The weighted average maturity of financing under Act 96 is at 10.7 years, with more than half (53.5%) extending more than 10 years.

Guarantees under Act 61

Guarantees under Act 61 refer to Financial Guarantees component comprising undertakings and supports as well as public guarantee schemes. Guarantees provided for undertakings and supports are intended for specific purposes such as strategic investments and corporate restructuring exercise. As at end-June 2025, outstanding exposure from these undertakings and supports amounted to RM31.1 billion, or 1.5% of GDP, with

Urusharta Jamaah Sdn. Bhd. representing the largest share at 78.1%. Moving forward, the Government will be more stringent in the provision of these instruments for strategic needs to contain fiscal risks.

Public guarantee schemes, on the other hand, serves as a policy tool to catalyse economic activities and provide sectoral support. The three principal public guarantee schemes are the business and SME financing scheme under Syarikat Jaminan Pembiayaan Perniagaan Berhad; housing loan scheme for homebuyers under Syarikat Jaminan Kredit Perumahan Berhad; and special scheme promoting sustainable investments via Green Technology Financing Scheme under Credit Guarantee Corporation Malaysia Berhad. As of end-June 2025, the outstanding guarantee exposure from these schemes is registered at RM57.5 billion or 2.9% of GDP. The risks stemming from these outstanding guarantee schemes remain minimal as the management of these schemes requires strict adherence to banking standards under the surveillance of Bank Negara Malaysia.

FEATURE ARTICLE

Reining In Risk: An Overview of Public Guarantee Schemes

Introduction

Public guarantee schemes, also referred to as standardise guarantee schemes in certain jurisdictions, are forms of government commitments to partially or entirely assume the financing obligation of a borrower in the event of default. Typically, a public guarantee scheme provides secondary credit risk mitigation to lenders with the objective of facilitating greater access to credit. The main features of the schemes are often associated with issuance of guarantees to a large number of beneficiaries, commonly under standardised terms and conditions. The schemes also incorporate a combined element of market-based arrangements for credit allocation and implicit government subsidies. These arrangements are recognised as a form of government contingent liability that does not require immediate cash outlay but may crystallise into fiscal costs should borrowers fail to meet their financial obligation under the schemes.

As the scope of public guarantee schemes continues to expand, the need for prudent policies and effective mechanisms has become increasingly imperative. Proactive risk management is critical to safeguard public resources while maximising intended outcomes. When embedded within a sound policy and institutional framework, public guarantee schemes are able to generate long-term value without compromising fiscal sustainability. Therefore, this article provides a brief overview of public guarantee schemes in Malaysia as part of the continuing series on “Reining in Risks” following an earlier article published in the 2025 Fiscal Outlook and Federal Government Revenue Estimates.

Landscape of Public Guarantee Schemes in Malaysia

In Malaysia, public guarantee schemes are positioned as a strategic financing instrument in fiscal management to achieve macroeconomic objectives. Beyond the immediate function of cushioning the impact of economic shocks, guarantee schemes also help to address structural financing gaps, promote business innovation, and expand financial inclusion for underserved segments of the economy. Public guarantee schemes are anchored by public institutions, managed through government-linked companies or their subsidiaries under the direct oversight of the Ministry of Finance and Bank Negara Malaysia. Currently, there are three entities administering these schemes, namely Syarikat Jaminan Kredit Perumahan Berhad (SJKP), Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) and Credit Guarantee Corporation Malaysia Berhad (CGC).

FIGURE 1. *Entities Managing Public Guarantee Schemes in Malaysia*

 SYARIKAT JAMINAN KREDIT PERUMAHAN BERHAD (SJKP) Wholly owned company of Minister of Finance (Incorporated) that focuses on providing home financing guarantees to eligible borrowers, particularly those without fixed income documentation, enabling greater access to home ownership.	 SYARIKAT JAMINAN PEMBIAYAAN PERNIAGAAN BERHAD (SJPP) Wholly owned company of Minister of Finance (Incorporated) that specialises in administering government guarantee schemes for SMEs and strategic sectors, particularly in facilitating working capital.	 CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD (CGC) Co-jointly owned company by Bank Negara Malaysia and several financial institutions to facilitate access to financing for SMEs and specific initiative.
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Source: Ministry of Finance, Malaysia, Syarikat Jaminan Kredit Perumahan Berhad, Syarikat Jaminan Pembiayaan Perniagaan Berhad and Credit Guarantee Corporation Malaysia Berhad

These entities collectively form the operational backbone of Malaysia's public guarantee ecosystem, ensuring fiscal support is prioritised towards sectors and segments that generate economic multiplier impact. This targeted approach aligns with the Government's development agenda, reinforced by strong oversight and accountability. As at end-2024, public guarantee schemes with a total value of RM73 billion have benefitted more than 163,000 borrowers across both SMEs and household segments.

FIGURE 2. *Salient Features of Malaysia's Public Guarantee Schemes*

ENTITIES	SYARIKAT JAMINAN KREDIT PERUMAHAN BERHAD (SJKP)	SYARIKAT JAMINAN PEMBIAYAAN PERNIAGAAN BERHAD (SJPP)	CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD (CGC)	
Key Programmes	Guarantee schemes for home financing with total financing limit of RM19 billion and maximum individual financing of RM500,000. • SJKP Budget 2022 • SJKP Budget 2023 • SJKP Budget 2024 • SJKP MADANI	10 guarantee schemes with total financing limit of RM86.4 billion to facilitate access to financing for SMEs. Key programmes include: • Working Capital Guarantee Scheme • Startups • Bumiputera • Export • Women • Automation and Digital Guarantee Scheme	Green Technology Financing Scheme (GTFS) • GTFS • GTFS 2.0 • GTFS 4.0 • GTFS 5.0 (commencing August 2025)	Intellectual Properties Financing Schemes (IPFS) – (completed)
Key Objectives	Assist non-fixed-income or lower-income earners obtain home financing to purchase their first home	Help SMEs obtain access to financing by providing government-aided guarantee schemes to participating financial institutions.	Support the investment in green technology by providing government-backed guarantee for green financing and concessional rebate on interest/profit.	Aid companies to use Intellectual Property Right (IPR) as an additional source of collateral to obtain funding hence spurring more investment with high technology capabilities.
Guarantee Coverage	Up to 120% guarantee on home financing principal	Up to 80% guarantee coverage	Up to 80% guarantee based on phases of the scheme	Maximum of 50% guarantee from total financing
Number of Participating Financial Institutions	15	34	29	Only Malaysia Debt Venture
Beneficiaries	85,505 households	77,529 SMEs	342 companies	12 companies
Guarantee Fee	0.25% – 0.5% per year	0.5% – 1% per year	Not specified	Not specified

Source: Ministry of Finance, Malaysia, Syarikat Jaminan Kredit Perumahan Berhad, Syarikat Jaminan Pembiayaan Perniagaan Berhad and Credit Guarantee Corporation Malaysia Berhad

Global Benchmarks for Best Practices

Globally, there is a general consensus on the principles underpinning the effective and responsible implementation of public guarantee schemes. Such schemes should be guided by a clear policy rationale, supported by robust institutional arrangements, and managed with discipline, in ensuring developmental impact is achieved without undermining fiscal responsibility. The World Bank Group and the Financial Sector Reform and Strengthening (FIRST) Initiative has outlined 16 principles of best practices for public guarantee schemes, which were built around four core dimensions and can be summarised as follows:

FIGURE 3. *Summary of Principles Guiding Effective Guarantee Schemes Mechanisms*

Legal and Regulatory Framework	• A clear legal basis, adequate funding and mixed ownership. • Governance structure should ensure operational independence while maintaining strong public accountability.
Corporate Governance and Risk Management	• The requirement of having an explicit mandate supported by independent and competent board of directors. • Entities offering public guarantee schemes should have effective and comprehensive enterprise risk management frameworks.
Operational Framework	• Adoption of well-defined target groups and eligibility criteria. • Fees should be transparent and risk-based. • Coverage ratios should strike a balance between incentivising lender participation and avoiding excessive fiscal exposure. • Claims processing must be transparent, timely, and accompanied by robust recovery procedures to safeguard public funds.
Monitoring and Evaluation	• The requirement for rigorous reporting with periodic independent evaluations to measure the scheme's additionality, financial sustainability, and development impact. • Findings of the evaluations should be used to refine policy and operations. • Guarantee exposure should be fully disclosed in relevant fiscal publication while contingent liabilities be incorporated into the fiscal risk assessments.

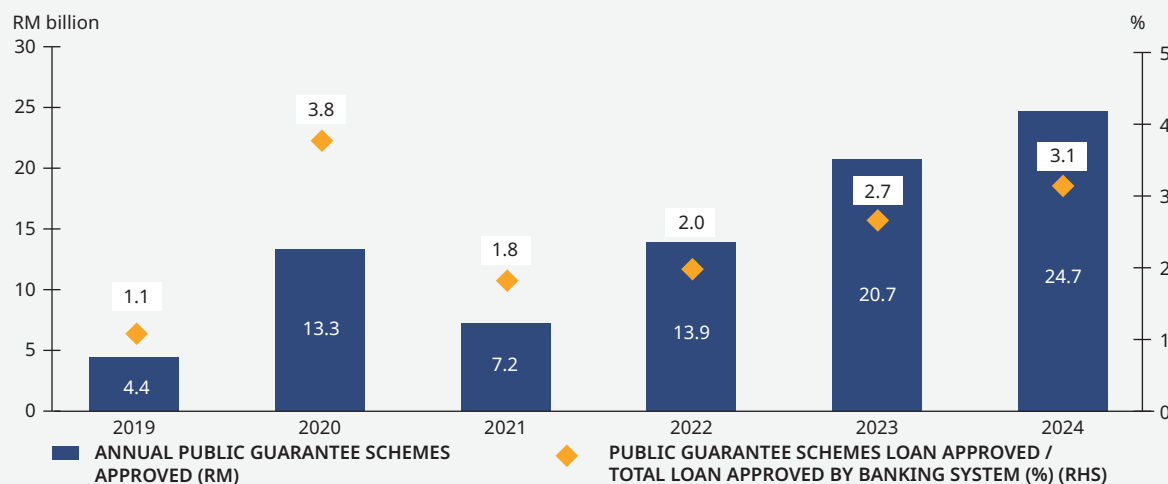
Source: Ministry of Finance, Malaysia, World Bank Group and Financial Sector Reform and Strengthening (FIRST) Initiative

Managing Risks

The use of public guarantee schemes has expanded significantly across economies, particularly during the COVID-19 pandemic, as counter-cyclical tools to sustain credit flows, especially to SMEs and strategic sectors. Prior to the pandemic, the average financing backed by guarantee schemes over total financing by banking systems was around 1% to 5% globally. However, the ratio increased to an average of 6% to 8% after the crisis. In certain advanced economies, the ratio escalated to more than 20% as governments acted swiftly to support business continuity, preserve jobs, and prevent a deeper economic downturn. While the increase represents a significant source of risk, it can be mitigated through comprehensive governance and risk controls, sound pricing structures as well as robust monitoring and evaluation systems.

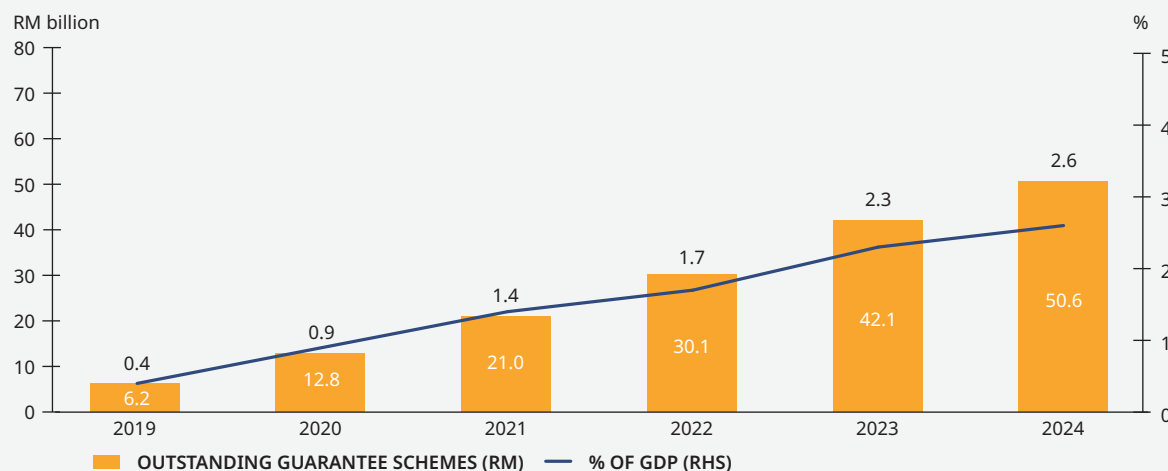
On the domestic front, public guarantee schemes under SJKP, SJPP and CGC have been utilised to support the economy, enhance financial inclusion, and sustain lending activity particularly during the COVID-19 crisis. In 2020, total guarantee schemes loan approval reached RM13.3 billion or 3.8% of total banking sector loan approvals. Thereafter, approvals under these schemes have increased steadily to support SMEs during recovery period. At the same time, various home financing guarantee schemes were consolidated under a single entity to streamline implementation. As at end-2024, the outstanding guarantee schemes exposure to the Government stood at RM50.6 billion or 2.6% of GDP.

FIGURE 4. Annual Public Guarantee Schemes Approvals, and Share of Public Guarantee Schemes Approval compared to Total Loan Approved by Banking System, 2019 – 2024



Source: Ministry of Finance, Malaysia, Bank Negara Malaysia, Syarikat Jaminan Kredit Perumahan Berhad, Syarikat Jaminan Pembiayaan Perniagaan Berhad and Credit Guarantee Corporation Malaysia Berhad

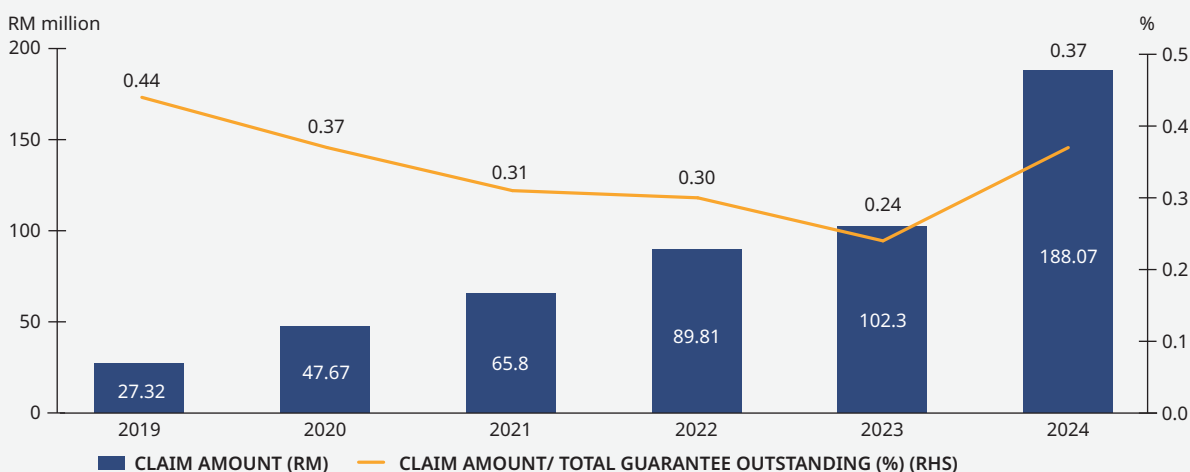
FIGURE 5. Outstanding Guarantee Schemes, 2019 – 2024



Source: Ministry of Finance, Malaysia, Syarikat Jaminan Kredit Perumahan Berhad, Syarikat Jaminan Pembiayaan Perniagaan Berhad and Credit Guarantee Corporation Malaysia Berhad

While exposure to public guarantee scheme has increased significantly since 2019, the risk of annual guarantee crystallisation to the Government remains relatively low. As at end-2024, total cumulative claims paid since the inception in 2009 amounted to RM831.2 million, representing 1.6% of the outstanding guaranteed amount disbursed.

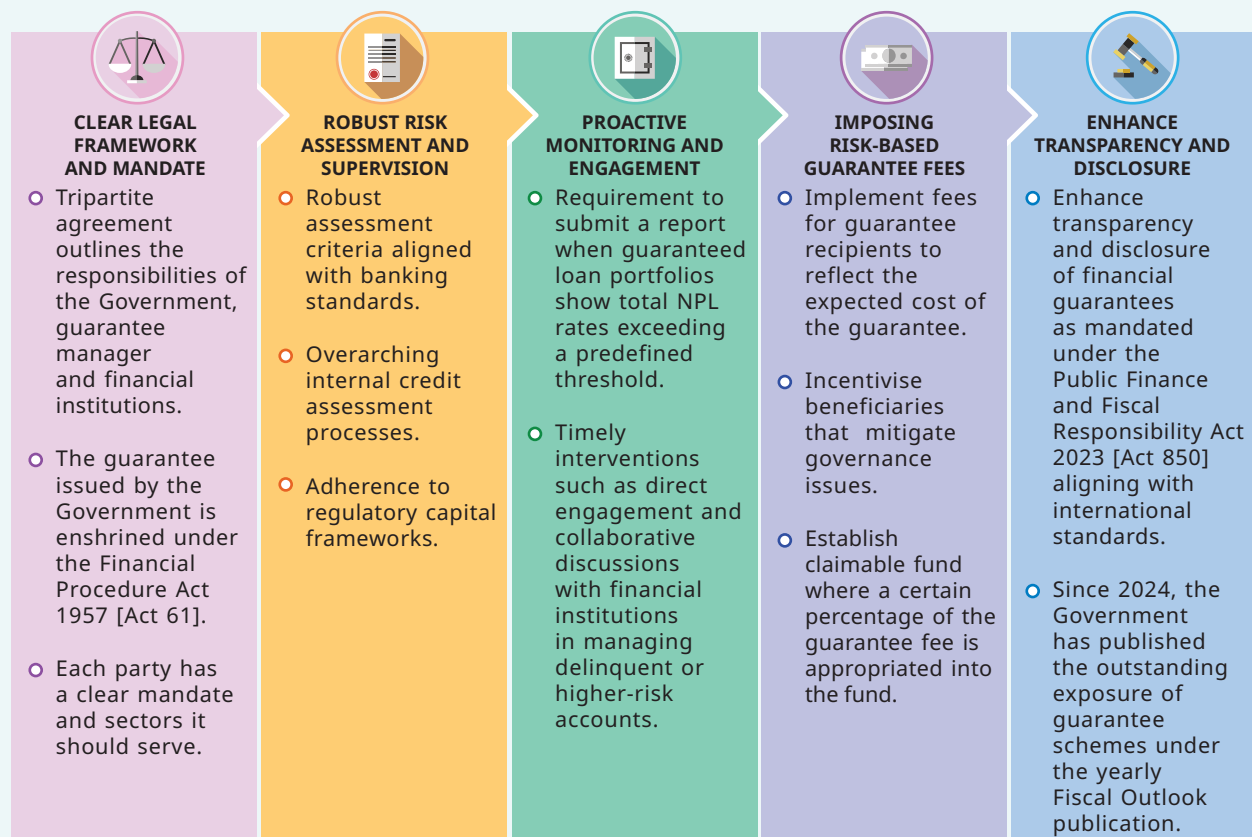
FIGURE 6. Claimable Amount Versus Outstanding Guarantee Schemes, 2019 – 2024



Source: Syarikat Jaminan Kredit Perumahan Berhad, Syarikat Jaminan Pembiayaan Perniagaan Berhad and Credit Guarantee Corporation Malaysia Berhad

Inherently, public guarantee schemes carry two primary risks. Firstly, the realisation of contingent liabilities may impose substantial and unpredictable fiscal burdens to the Government. Secondly, the risk of moral hazard within the financial sector may emerge if participating financial institutions rely excessively on guaranteed financing instead of extending credit from their own balance sheets, where they bear the full credit risk. Furthermore, the presence of the government guarantees may also lead to less stringent credit assessments of applicants heightening the likelihood of non-performing loans (NPL).

The Government and the entities administering public guarantee schemes have progressively implemented range of measures to address these risks, aimed at containing fiscal exposure and safeguarding credit quality. These initiatives, which align closely with international best practices, can be summarised into five core pillars: clear legal framework and mandate; robust risk assessment and supervision; proactive monitoring and engagement; appropriate risk-based guarantee fees; as well as enhance transparency and disclosure.

FIGURE 7. Malaysia's Five Core Pillars in Managing Risk from Public Guarantee Schemes

Source: Ministry of Finance, Malaysia

Way Forward to Enhance Risk Mitigation

As public guarantee schemes mature and expand, continuous refinement of scheme structure and mechanism is essential to manage contingent liabilities exposure and potential shocks on public finances. In this regard, several improvement measures and policy options are currently being explored to further strengthen risk mitigation associated with the administration of the public guarantee schemes.

- i. Potential **gradual reduction of the Government's risk share** through a tiered risk-sharing approach, encouraging greater participation from financial institutions and prudent lending. This model has been successfully applied in several OECD countries, ensuring financial institutions maintain meaningful credit risk and undertake more rigorous credit assessments.
- ii. Explore **partial cost- or revenue-sharing arrangements** with financial institutions, particularly within sectors that more commercially viable. Since the Government undertakes significant portion of the financing risk, the financing cost to the borrower could be shared between the financial institutions and the Government. This arrangement could be used to build-up a claimable fund for future credit impairments which in turns insulate Government finances.

- iii. Study the possibility of **mixed guarantee delivery models** where guarantees are given based on business life cycle. Such model used individual guarantees for high-risk SMEs while adopting portfolio guarantees for more established companies.
- iv. Adopt the **graduation mechanism** for companies that have attained sufficient financial capacity. This enables public resources to be reallocated towards new borrowers, thus broadening credit access.
- v. Impose more **stringent covenants** for recipients of guarantee recipients to instil financial discipline. This can be in the form of limitation on dividend payouts, spending controls or performance-based disbursement of financing.

Conclusion

In general, public guarantee schemes stand as a testament to the nation's adaptive economic strategy, evolving from foundational support for SMEs to a critical tool for infrastructure financing and counter-cyclical interventions. While these guarantees have aided economic development and eased immediate fiscal burdens, their contingent nature presents inherent fiscal risks, especially during economic turmoil. Recognising this, the Government has proactively reinforced its risk management framework to minimise the exposure on public guarantee schemes. The enactment of Act 850 further expands oversight on fiscal risk components, broadens the interpretation of financial guarantees and enhances transparency.

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Guarantees under Act 66 and Act 412

There are no outstanding obligations for guarantees issued under Act 66 and Act 412, which pertain to guarantees on financing secured from multilateral financial institutions. This is due to the evolving Government financing strategy which has developed its domestic funding sources and commercial borrowing arrangements, thus rendering access to multilateral financing as optional and not immediately required.

Committed Guarantees

The disclosure of committed guarantees in the debt and liabilities reporting is one of the key elements of the Federal Government's fiscal accountability and transparency. Committed guarantees comprise recipients of

Financial Guarantees which obtain financial allocation from the Government to ensure the continuation and viability of strategic projects and programmes. The allocation is provided in the form of temporary cash injections, working capital provision or partial interest servicing.

As at end-June 2025, committed guarantees represented 55.8% of total outstanding Financial Guarantees issued under Act 96 and Act 61, a marginal increase of 0.4% to RM237.1 billion from end-2024. There were additional financing requirements for the ECRL project and DanaInfra Nasional Berhad. However, this addition was offset by redemption of financing obligations by Jambatan Kedua Sdn. Bhd., MKD Kencana Sdn. Bhd., Suria Strategic Energy Resources Sdn. Bhd. and Federal Land Development Authority (FELDA).

TABLE 5.4. *Committed Guarantees, 2024 – 2025*

ENTITY	RM MILLION		SHARE (%)	
	2024	2025 ³	2024	2025 ³
DanaInfra Nasional Berhad	85,100	87,000	36.0	36.7
Malaysia Rail Link Sdn. Bhd. ¹	50,303	52,373	21.3	22.1
Prasarana Malaysia Berhad	41,955	42,155	17.8	17.8
Urusharta Jamaah Sdn. Bhd. ²	23,815	24,291	10.1	10.2
Federal Land Development Authority (FELDA)	6,928	6,513	2.9	2.8
Suria Strategic Energy Resources Sdn. Bhd. ¹	5,422	5,006	2.3	2.1
1Malaysia Development Berhad	5,000	5,000	2.1	2.1
Jambatan Kedua Sdn. Bhd. ¹	4,940	3,558	2.1	1.5
Turus Pesawat Sdn. Bhd.	3,685	3,360	1.6	1.4
GovCo Holdings Berhad	3,300	3,300	1.4	1.4
MKD Kencana Sdn. Bhd.	3,200	2,000	1.3	0.8
MKD Signature Sdn. Bhd. ²	1,560	1,560	0.7	0.7
TRX City Sdn. Bhd.	650	650	0.3	0.3
Syarikat Perumahan Negara Berhad	371	318	0.1	0.1
Total	236,229	237,084	100.0	100.0

¹ Subject to exchange rate valuation

² Guarantee provided under Act 61

³ End-June 2025

Source: Ministry of Finance, Malaysia

Other Liabilities

There are two main components of other liabilities, namely the financial obligations arising from PPP and PFI. Both components provide alternative financing avenues for advancing the Government's infrastructure development priorities while leveraging private sector participation and resources in the national development agenda.

Public-Private Partnership

The PPP framework facilitates collaboration between the public and private sectors, enabling the private partner to build, finance and operate a stand-alone business entity to deliver infrastructure, acquire assets, or provide services to the Government and the public. The terms of the partnership are set out in a formal agreement which mandate specific obligations and deliverables to the Government and the private entities. Currently, there are two PPP funding models which are the user-pay model that is fully funded by the private sector and the co-financing model (jointly funded by the Government and private sector). As at end-June 2025, there were 108 PPP projects under the co-financing model, with total outstanding financial commitments to the Government amounting to RM112 billion, an increase of 5.9% from end-2024. There were several new PPP projects which include the assets leasing arrangement, waste-to-energy and agriculture irrigation project.

Private Finance Initiative

The PFI was initiated in 2008, aimed at enabling the Government to maintain the development momentum during the global economic downturn. Projects and programmes financed under this approach include public utilities, education, affordable housing, skills development, and maintenance of government facilities. As such, the Employees

Provident Fund (EPF) and the Retirement Fund (Incorporated) (KWAP) provided funding for these initiatives, subsequently the Government assumed the repayment obligations. As at end-June 2025, outstanding PFI commitments stood at RM41.4 billion, compared to RM42.8 billion in 2024.

Risk Mitigation on Liabilities Exposure

Fiscal resilience requires proactive measures to anticipate and contain risks arising from the Government's liabilities. Risk mitigation efforts will focus on enhancing analytical capacity, strengthening governance structures, and embedding early alert mechanisms into fiscal planning. This includes expanding the scope of risk assessments on Financial Guarantees, PPP obligations, and other contingent liabilities, ensuring any vulnerabilities are identified before they crystallise into fiscal costs. The implementation of Act 850 continues to underpin the institutional framework for managing fiscal risks. Several requirements under this Act have been fulfilled in stages, which include the issuance of formal guidelines and adherence to the 25% of GDP ceiling for Financial Guarantees. Furthermore, the Government's liabilities are actively monitored by a committee mandated under the Act.

Meanwhile, the PPP framework is continuously being refined to prioritise user-pay projects and reduce reliance on government funded projects, as recommended under the Public-Private Partnership Masterplan 2030. Moreover, any consideration for new PPP projects requiring Government financial commitments will subject to the scope and funding limits requirements under the Thirteenth Plan. In addition, PPP governance will be further enhanced, with the view of enacting a legislation on PPP. In addition, value at entry (VAE) evaluation, which was implemented for

development projects, will be applied as a mandatory screening mechanism for new PPP projects to ensure only viable, strategic and ready-to-execute projects can be considered.

The governance reforms for government link companies and Federal Statutory Bodies have been refined. Several circulars have been issued to enhance compliance in relation to the appointment and conduct of the board members, remuneration and allowances, bonus, overseas travel as well as procurement procedures. Additionally, the drafting of the proposed act related to state-owned enterprises will take into account the requirements to formalise accountability standards, enhance financial transparency, and strengthen oversight powers. The establishment of the Secretariat for the Rationalisation of Federal Statutory Bodies has been tasked to analyse the feasibility of various Federal Statutory Bodies, going concerns and any potential overlaps in functions. Together, these initiatives will create a more robust, rules-based framework to enhance governance standards and structures.

This in turn may reduce exposure to risks, ease fiscal pressure as well as create a sound ecosystem to invest in strategic segments to advance the national development agenda.

Conclusion

Overall, Federal Government debt and liabilities remain manageable within contained risk exposure, due to full redemption of several liabilities obligations as well as no new committed guarantees. This reflects fiscal discipline and resilience, coupled with comprehensive framework that are able to limit risk exposure and safeguard public finances. Therefore, the current reforms undertaken by the Government will facilitate more efficient resource allocation toward strategic priorities that matter most for the nation and rakyat. Moving forward, the Government will continue to embed fiscal risk elements into the broader public finance management, hence enabling conducive business environment, boosting investor confidence and realising the nation's growth potential.

FIGURE 5.1. Financial Guarantees

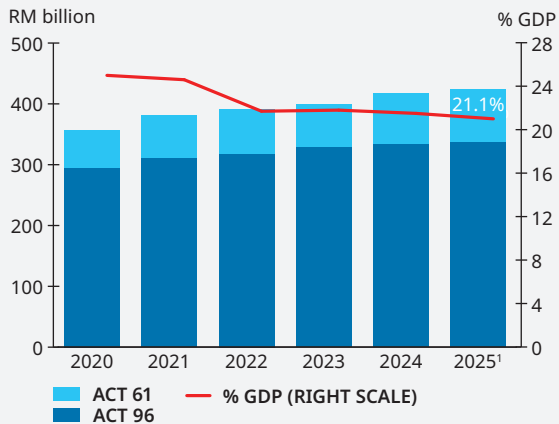


FIGURE 5.2. Maturity Profile of Guarantees under Act 96¹

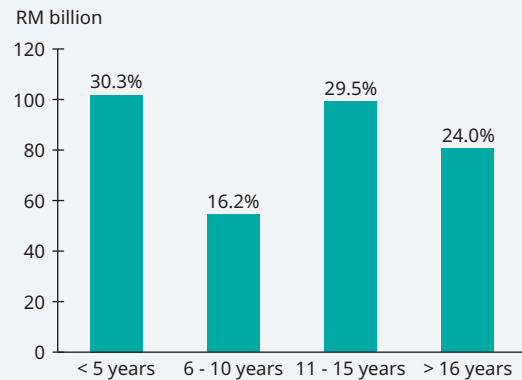


FIGURE 5.3. Guarantees under Act 96 by Segment¹

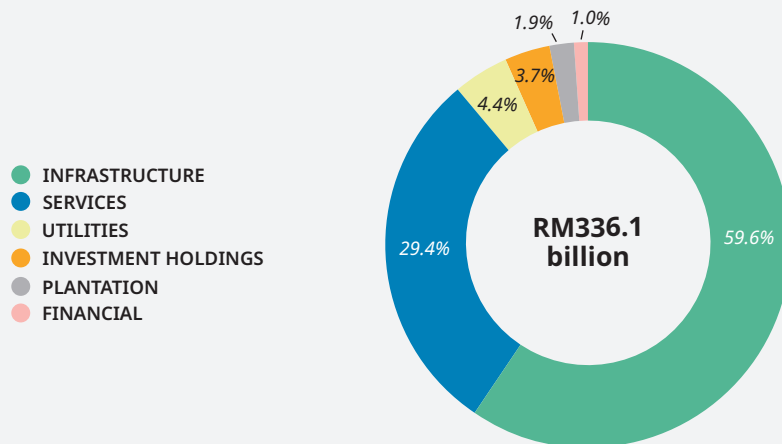
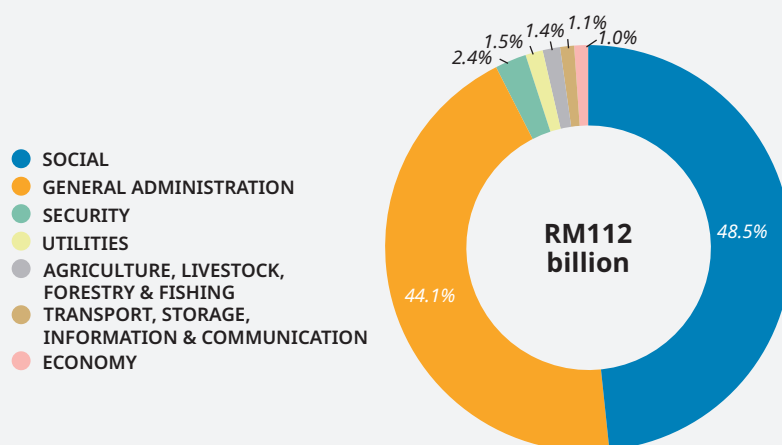


FIGURE 5.4. Outstanding PPP Obligations by Sector¹



¹ End-June 2025

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