HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

MALAYSIA

Implementing a Medium-Term Expenditure Framework

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High-Level Summary Technical Assistance Report
Fiscal Affairs Department

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: This technical assistance provided guidance to implement a Medium-Term Expenditure Framework (MTEF) in Malaysia anchored in the 2023 Public Finance and Fiscal Responsibility Act, which represented progress in establishing fiscal rules supported by a medium-term fiscal perspective. Key challenges for integrating medium-term budgeting include publication of year-by-year fiscal projections to guide multi-year expenditure ceilings preparation, preparing multi-year baseline estimates, budget fragmentation, and improving coordination. The report recommends a phased MTEF rollout, with pilot ministries, strengthening the Medium-Term Fiscal Framework (MTFF), upgrading public financial management systems, and introducing a strategic budget phase supported by enhanced institutional arrangements. These reforms target fiscal discipline under the fiscal rules' framework, transparency, and public expenditure efficiency.

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Keywords: Medium-Term Expenditure Framework (MTEF); Medium-Term Fiscal Framework (MTFF); Medium-Term Budget Framework (MTBF); Budget; Fiscal Rules; Fiscal Sustainability; Public Financial Management (PFM); Expenditure Ceilings; Budget Reform; Fiscal Strategy Statement; public finance; Malaysia

Background

The technical assistance (TA) mission was conducted at the request of Malaysia's Ministry of Finance to support the implementation of a Medium-Term Expenditure Framework (MTEF) under the requirements of the Public Finance and Fiscal Responsibility Act 2023 (PFFRA). The PFFRA objective of fiscal discipline and sustainability is operationalized through medium-term fiscal planning, including the introduction of fiscal rules and a Medium-Term Fiscal Framework (MTFF) supported by a revenue strategy and a public expenditure policy with a medium-term perspective.

The mission took place in November 2025 and involved extensive consultations with key government stakeholders, including the National Budget Office (NBO), Fiscal and Economics Division (FED), Ministry of Economy (MOE), Public Service Department (PSD) and line ministries such as Transport, Health, and Education.

The project's primary objective was to assess Malaysia's preparedness for adopting an MTEF, drawing on international best practices and engaging stakeholders through workshops and hands-on exercises. The TA aimed to build capacity in medium-term budgeting methodologies, develop practical tools for baseline estimation and expenditure ceilings, and design institutional arrangements to support the MTEF. This initiative is critical for translating the PFFRA's fiscal rules and medium-term fiscal policy perspective into operational budgetary decisions, thereby enhancing fiscal discipline, resource allocation, and ensuring alignment with national development priorities. The TA complements ongoing efforts to strengthen Malaysia's fiscal risks management and supports Malaysia's broader fiscal reform agenda.

Summary of Findings

The mission found that Malaysia has made important strides by legislating fiscal rules (deficit and debt) and establishing an MTFF, which is published annually in the Fiscal Outlook report with the budget proposal. However, the MTFF currently provides total three-year projections without annual breakdowns, which limits the ability to set credible multi-year budget ceilings. The budget process remains annual and fragmented, with separate procedures for operating and development expenditures, managed by different ministries, and lack of integration of multi-year commitments or cost drivers' sectoral information. Baselines for expenditure—estimates of the future cost of existing policies—are not systematically prepared for the medium term, and ministries submit only one-year budget proposals relying on incremental budgeting without analyzing medium-term policy impact. Data systems such as MyProjek and MyBelanjawan (development and operating expenditure) are not fully integrated and do not capture multi-year commitments, hindering accurate baseline costing and fiscal space assessment. The budget ceilings apply only to the upcoming fiscal year, with frequent in-year reallocations and supplementary budgets that weaken the credibility of initial fiscal constraints. Coordination among key institutions, including FED, NBO, MOE, and line ministries, is limited and do not consider the medium-term perspective. There is no strategic budgeting phase that aligns the medium-term fiscal strategy and fiscal rules with annual budget preparation. Institutional capacity constraints and the lack of methodologies for baseline estimation imply further challenges in the transition to an effective MTEF. The mission also identified gaps in monitoring and evaluation frameworks, with limited use of performance information in budget decisions and no systematic program evaluation process. Participants in the workshops recognized the need for clearer guidance, improved data systems, and enhanced coordination to support a credible MTEF. The report highlights the need for a comprehensive reform package encompassing macro-fiscal framework upgrades, budget process enhancements, and institutional strengthening to support a credible and operational medium-term budgeting.

Summary of Recommendations

To address these challenges, the report recommends a phased and systematic approach to implementing the MTEF. The design of the MTEF should focus on establishing three-year indicative budget ceilings at the ministerial level, with the first-year ceilings binding and outer years indicative. This approach balances fiscal discipline with flexibility and aligns with Malaysia's existing budget structure. The mission advises piloting baseline and ceiling methodologies in selected ministries—Transport, Health, and Education—to build experience on calculating spending pressures and develop comprehensive guidelines and templates. Capacity development through targeted training for Ministry of Finance, Ministry of Economy, and line ministries' staff is critical to ensure effective implementation.

The mission emphasizes the importance of upgrading the Medium-Term Fiscal Framework (MTFF) to include detailed year-by-year fiscal projections to inform the NBO expenditure ceilings preparation. A Fiscal Strategy Statement (FSS) published early in the budget cycle would include the MTFF and guide medium-term budgeting preparation in line with fiscal rules' compliance and consistent policy decisions. Thus, the report calls for formalizing a strategic budgeting phase early in the annual budget cycle, anchored by a new Strategic Budget Circular, the MTFF, and supported by a Permanent Working Group of the Fiscal Policy Committee (FPC) and technical working groups on MTEF and related reforms. These institutional arrangements will enhance coordination among the Ministry of Finance, Ministry of Economy, NBO, and line ministries, facilitating information sharing and joint decision-making.

Strengthening Public Financial Management (PFM) systems is also critical, including upgrading IT systems to capture multi-year commitments, improving data integration between operating and development expenditures, and limiting in-year budget modifications to preserve the credibility of the framework. Finally, the report underscores the need to develop a robust monitoring and evaluation framework to systematically assess program performance and conduct spending reviews, thereby improving resource allocation efficiency, and complementing the MTEF.

Together, these recommendations aim to embed a credible, transparent, and efficient medium-term expenditure framework that aligns Malaysia's budgeting process with international best practices and supports fiscal sustainability under the PFFRA objectives.