R&I Upgrades to/Affirms A+, Stable: Malaysia Foreign/Domestic Currency Issuer Rating

Rating and Investment Information, Inc. (R&I) has announced the following:

**ISSUER:** Malaysia

Foreign Currency Issuer Rating: A+, Previously A
Rating Outlook: Stable

Domestic Currency Issuer Rating: A+, Affirmed
Rating Outlook: Stable

Foreign Currency Short-term Debts: a-1, Affirmed

**RATIONALE:**

Malaysia has diverse industries, such as the manufacturing industry anchored by electric and electronics sectors, and natural resource-related industries. With a relatively advanced industrial base, the economy is performing well even amid somewhat weakening external demand. The Mahathir administration is pressing ahead with its policy agenda, including promotion of digital industries and strengthening of human resources. The policy thrust by the government is expected to contribute to making the economy more stable in tandem with inflows of foreign direct investment. The fiscal balance is on an improving trend, and the government debt ratio has stabilized. The government's institutional reform will help enhance fiscal transparency and maintain discipline, in R&I's view, and therefore constitutes a positive factor for the evaluation of the sovereign creditworthiness from the perspective of policy management. In consideration of these factors, R&I has upgraded the Foreign Currency Issuer Rating to A+. The Domestic Currency Issuer Rating has been affirmed.

In 2019, the economy was supported by buoyant private consumption, though exports and investment decreased due primarily to lower oil prices and a slowdown in the semiconductor market. Real gross domestic product (GDP) is projected to grow around 4.5% in 2019. In anticipation of recovery in exports and private investment, the government estimates real GDP growth for 2020 at 4.8%, which is slightly higher than the consensus forecast. Although attention should be paid to developments in the economies and trade relations of the U.S. and China, major export destinations for Malaysia, R&I expects real GDP growth to keep hovering in the mid-4% range, benefiting from solid domestic demand. There is some indication that companies have sought to relocate their production to Malaysia due to the U.S.-China trade friction. Indeed, amounts of approved investments from the U.S. increased significantly in 2019, primarily for semiconductor-related industries. If investment plans are executed and production relocation accelerates, economic prospects will be boosted.

The current account balance has been in a surplus of 2-3% of GDP and is expected to stay on the path in the coming years. International reserves remain sufficient to cover imports and outstanding short-term external debts. Although the net international investment position is negative with foreign liabilities exceeding assets, the gap is kept small relative to GDP. There is little concern about the external liquidity position.

The federal government's fiscal deficit has been in the 3% range of GDP. Reflecting the government's consolidation efforts, the deficit for 2019 is likely to be contained at 3.4% of GDP. In the 2020 budget, a deficit target is set at 3.2% of GDP. The government has slowed the pace of deficit reduction compared to the initial target, but its commitment to fiscal consolidation has been unchanged. According to the medium-term fiscal framework, which outlines policies for the next three years, spending will be restrained based on the expenditure ceiling during 2020 through 2022 and the fiscal deficit is projected to narrow to 2.8% of GDP. As part of its fiscal reform, the government plans to introduce a Fiscal Responsibility Act in 2021 to stipulate statutory standards, rules and procedures for fiscal and budgetary management. Such
initiatives will help increase fiscal transparency and support adherence to discipline and efficient fiscal management, in R&I's view.

The outstanding federal government debt to GDP ratio is rising moderately, standing at 53.9% as of end-September 2019. The debt burden is at a manageable level in light of the country's income level and the maturity of the financial market. The sum of federal government debts, committed guarantees, debts of sovereign wealth fund 1Malaysia Development Berhad (1MDB) and other liabilities amounted to about RM1.2 trillion, or 77.1% of GDP, at end-June 2019. Eyes are particularly on handling of 1MDB’s debt that is scheduled to mature in 2023.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.
https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:  
Foreign Currency Issuer Rating  
RATING:  A+, Previously A
RATING OUTLOOK:  Stable

Domestic Currency Issuer Rating  
RATING:  A+, Affirmed
RATING OUTLOOK:  Stable

Foreign Currency Short-term Debts  
RATING:  a-1, Affirmed