R&I

NEWS RELEASE

Apr 8, 2024

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

Malaysia (Sec. Code: -)

[Affirmed]

Foreign Currency Issuer Rating: A+, Stable
Domestic Currency Issuer Rating: A+, Stable
Foreign Currency Short-term Debt Rating: a-1

RATIONALE:

Malaysia has a diverse industrial landscape, including manufacturing industry anchored by electrical and electronics sectors, and natural resource-related industries. Supported by a relatively advanced industrial base, the economy has been showing resilience. The government debt ratio is on an upward trend but is expected to remain at a manageable level. External stability has also been maintained, as indicated by current account surpluses and foreign exchange reserves. Based on the said recognition, R&I has affirmed the Foreign and Domestic Currency Issuer Ratings at A+.

Real gross domestic product (GDP) recorded a high growth in 2022, driven by the rebound of private consumption along with a recovery from the COVID-19 pandemic and the strong exports, among other factors. However, the export of goods ran out of steam in the second half of 2022, dragged by a decline in global demand and the loss of the boost from pent-up demand following the stagnation under the COVID-19 pandemic. In 2023, the economy slowed down compared to the previous year and recorded a full year real GDP growth rate of 3.7%, which underperformed the government's initial plan. As for 2024, the government projects the real GDP growth of 4 to 5%, as the economy will grow following the external demand recovery, going forward. R&I also expected the GDP growth in the 4% range.

The current account balance remains in constant surpluses supported by the trade surplus resulting from exports of electrical and electronic products as well as products related to natural resources. The current account surplus had stayed at around 3 to 4% of GDP since 2019, but it fell to 1.2% in 2023. While the decrease in current account surplus is attributable to a decline in exports, the surplus will likely increase engaging with the recovery of external demand. As Malaysian Ringgit was weakening, the foreign exchange reserve had been on a declining trend since the beginning of 2023, but turned to increase at the end of the year. The foreign exchange reserve still sustains a certain amount relative to imports and short-term external debts. Furthermore, assets in the international investment position slightly exceed liabilities. Concerns over the external liquidity position are limited.

The fiscal deficit as a share of GDP, which had widened due to policy measures in response to the spread of COVID-19, is narrowing. In 2023, current expenditure grew at a moderate pace, while revenue recorded a firm growth. The fiscal deficit was 5.0% of GDP, which was lower than the previous year and achieved the target announced in 2023 Budget. The budget plan for 2024 projects the fiscal deficit at 4.3%, decreasing from the previous year's level. On the revenue side, the government has implemented measures to secure financial resources, including the introduction of capital gain tax and the application of higher service tax rate. That said, the ratio of revenue to GDP will likely drop from the previous year, due to the impact of falling oil prices. The government plans to reduce the budget deficit by constraining the spending.

The government debt to GDP ratio is 64.3% as of year-end of 2023. R&I sustains the view that the debt burden stands at a manageable level, in light of the country's income level and the domestic financial market development, while attention should be paid to the persistently upward trend of government debt. Prime Minister Anwar Ibrahim has strived to secure the stability of his administration since he took office by forming the national unity government at the year-end of 2022. On the economic side, the Anwar administration seeks to accelerate the economic growth by strengthening the international competitiveness and by attracting foreign direct investments more proactively under the vision of "MADANI Economy: Empowering the People". The government also pays attention to advancing social developments such as increasing labor participation of women and curbing corruption.

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Eyes are on the courses of action the government will take, especially whether it is able to steadily push ahead with the initiatives aimed at achieving social and economic development, while promoting fiscal consolidation, one of the major economic policies pursued by the government, and whether the government is able to maintain political stability.

R&I RATINGS:
ISSUER: Malaysia

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	Rating	Rating Outlook
Foreign Currency Issuer Rating	A+	Stable
Domestic Currency Issuer Rating	A+	Stable

	Rating
Foreign Currency Short-term Debt	a-1

Primary rating methodologies applied:
R&I's Analytical Approach to Sovereigns [May 21, 2021]

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