

# CareEdge Global assigns Long Term Foreign Currency Rating of A- (Unsolicited) to Malaysia

## Credit Profile

Malaysia's credit profile is underscored by its institutional strength, sound financial sector, and favourable external position. The economy is adequately diversified with a well-developed infrastructure that supports its medium-term growth prospects. Balanced against these strengths are Malaysia's average fiscal performance due to slow efforts at fiscal consolidation, narrow revenue base, government's exposure to petroleum-related income and contingent liabilities risks.

## Strengths

- Diverse economy with robust medium-term growth potential
- Efficient regulatory environment favouring business investment
- Favourable external position supported by consistent current account surpluses

## Weaknesses

- Low government revenue base
- High percentage of externally held debt

## Key Monitorables

- Maintenance of fiscal discipline
- Phasing out of subsidies

## Key Rating Drivers

### Economic Structure & Resilience

Malaysia's economic assessment reflects its moderately large economic size, healthy medium-term growth potential, and adequately diversified economy. The GDP per capita stood at USD 30210 on PPP basis at constant prices in 2023. The economy is rich in mineral resources and diversified into sectors such as high value-added manufacturing, financial services, and tourism. Well-developed infrastructure and favorable demographics bolster Malaysia's competitiveness and are expected to underpin its medium-term growth prospects. Post-pandemic GDP growth has been driven by a resurgence in tourism and domestic demand. GDP growth averaged 5.2% annually from 2021 to 2023. GDP growth in Q2-2024 exceeded expectations, reaching 5.9%, driven by broad-based gains in manufacturing, mainly due to robust consumption growth. GDP growth is projected to average 4.4% (2024-2026).

### Fiscal Strength

Malaysia's fiscal assessment is weighed down by its constrained revenue base and the challenges posed by its general government debt. Over the past five years, Malaysia's GG debt has risen from around 56% of GDP in 2018 to 67% in 2023. The high interest-to-revenue ratio (average 14.7% from 2019 to 2023) further exacerbates fiscal pressures. The abolition of the Goods and Services Tax (GST) in 2018 and its

replacement with the Sales and Services Tax led to a significant decline in revenue mobilization. Revenue as a percent of GDP has not recovered to pre-pandemic levels (21.6% of GDP in 2019), declining from 20% in 2022 to 18.9% in 2023. Additionally, the government's ongoing reliance on petroleum-related revenues makes it vulnerable to commodity price shocks. Costly and poorly targeted food and fuel subsidies also exacerbate fiscal strains. Furthermore, sizable committed guarantees and high non-financial public sector debt pose contingent liability risks. Outstanding government guarantees remain sizable, amounting to 17.8% of GDP. However, the favorable general government debt structure, with a high share of domestic currency debt (~97%) and a long maturity debt profile, are important mitigating factors. The passage of the Fiscal Responsibility Act in 2023 and proposed subsidy reforms in Budget 2024 are important steps towards enhancing fiscal sustainability.

### External Position & Linkages

The external position benefits from a structural current account surplus (~3.2% of GDP during 2019-23) and adequate foreign direct investment (FDI) flows. FDI net inflows averaged 3% of GDP from 2019-2023. The foreign exchange reserves are moderate with the capacity to cover nearly 5 months of imports. Malaysia's externally held debt is moderately high (~65% in 2023) with a relatively high share (~43%) of short-term liabilities. However, nearly half of the short-term external debt is intragroup borrowing by banks and corporates, which reduces repayment risk. A moderately high exposure to foreign portfolio flows further adds to external sector vulnerabilities.

### Monetary & Financial Stability

Malaysia's exchange rate regime is classified as floating, with occasional central bank interventions in the foreign exchange market to stabilize the currency. Inflation has been largely under control (~1.6% during 2019-23) supported by government subsidies for essential items. CPI inflation stood at 2% in July 2024. Average inflation is likely to rise to 2.8% in 2024. There may be some upward pressure on inflation in the future as the pending subsidy reforms are implemented. The financial sector is healthy and diversified, with a well-capitalized banking sector and deep capital markets. Asset quality is commendable with a non-performing loan to total loans ratio steady at around 1.7%. However, the large size of the banking sector and elevated levels of household private debt at 84% of GDP in 2023 are risk factors that warrant monitoring.

### Institutions & Quality of Governance

Malaysia's institutions demonstrate considerable efficacy in policymaking, and the rule of law is well established. It ranks highly in ease of doing business and as a destination for investment. The formation of a unity government in 2022 has overseen a period of stability. However, this environment may be fragile given Malaysia's medium-term history of political volatility, leadership churn, and unresolved underlying tensions, including ethnic and regional divisions. Furthermore, high-profile corruption incidents have undermined the long-term credibility of governance. In response, the government outlined a commitment to addressing corruption through the National Anti-Corruption Strategy, which is currently being implemented. Continued anti-corruption efforts and governance improvements are critical for sustaining institutional strength.

Malaysia – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
<b>Economic Indicators</b>									
Nominal GDP	USD Billion	359	365	337	374	407	416	446	478
GDP Per Capita (Constant-PPP)	USD	26850	27914	26452	27216	29502	30211	31168	32161
Real GDP Growth	%	4.8	4.4	-5.5	3.3	8.7	3.7	4.4	4.4
GFCF/GDP	%	24.2	22.9	20.9	19.3	18.2	19.2	-	-
Gross Domestic Savings/GDP	%	30.6	28.6	26.0	29.3	30.7	27.5	-	-
Exports (G&S)/GDP	%	68.6	65.3	61.6	70.6	77.0	68.4	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.5	69.6	69.7	69.8	69.8	69.8	69.7	69.6
Old-Age (65+) Population (% Share in Total)	%	6.5	6.8	7.0	7.3	7.5	7.8	8.1	8.4
<b>Fiscal Indicators – General Government</b>									
Fiscal Balance/GDP	%	-2.6	-2.0	-4.9	-6.0	-4.8	-4.4	-3.5	-3.5
Revenue/GDP	%	20.2	21.6	20.1	18.4	19.9	18.9	17.6	17.0
Expenditure/GDP	%	22.8	23.6	25.0	24.4	24.7	23.3	21.1	20.5
GG Gross Debt/GDP	%	55.6	57.1	67.7	69.2	65.6	67.3	66.4	66.3
GG External Debt (by Creditor)/GG Gross Debt	%	21.6	24.3	25.1	24.6	21.9	21.9	-	-
Interest/Revenue	%	13.1	12.5	15.3	16.3	14.0	15.2	-	-
<b>External Indicators</b>									
Current Account Balance/GDP	%	2.2	3.5	4.2	3.9	3.1	1.5	2.4	2.7
FDI, Net Inflows/GDP	%	2.3	2.5	1.2	5.4	3.6	1.9	-	-
Outstanding FII Liabilities/GDP	%	40.5	41.1	46.6	44.2	36.4	35.1	-	-
NIIP/GDP	%	-4.9	-2.6	5.9	5.8	3.0	6.5	-	-
Foreign Exchange Reserves	USD Billion	101.4	103.6	107.7	116.6	114.1	113.4	-	-
Import Cover	Months	5.5	5.9	6.9	5.9	4.8	5.4	-	-
External Debt/GDP	%	62.2	63.3	70.8	69.2	63.7	65.1	-	-
<b>Monetary and Financial Indicators</b>									
CPI Inflation	%	1.0	0.7	-1.1	2.5	3.4	2.5	2.8	2.5
Exchange Rate (Average)	LC per USD	4.0	4.1	4.2	4.1	4.4	4.6	-	-
Non-Performing Loans/Total Gross Loans	%	1.5	1.5	1.6	1.7	1.7	1.7	-	-
Private debt, loans and debt securities/GDP	%	140.0	139.1	155.8	148.0	131.1	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

## Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	A-	October 3, 2024

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## Criteria Applied

CareEdge Sovereign Rating Methodology

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