CareEdge Global assigns 'Stable' outlook to the rating of Malaysia

Reaffirms Long Term Foreign Currency Rating of 'CareEdge A-' (Unsolicited)

Issuer rating	CareEdge A-/ Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of Malaysia while reaffirming the Long Term Foreign Currency rating of 'CareEdge A-' (Unsolicited). Malaysia's rating benefits from being a diverse economy with a good growth potential in the medium term. The rating is also underscored by its institutional strength, sound financial sector, and a favourable external position. Balanced against these strengths are Malaysia's average fiscal performance metrics due to slow efforts at fiscal consolidation, relatively narrow revenue base, government's exposure to volatile petroleum-related income, and contingent liabilities risks.

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

Weaknesses
- Low government revenue base
- High percentage of externally held debt
- High contingent liability risks

Key Monitorables
- Maintenance of fiscal discipline and extent of subsidies
- Any reduction in debt and interest burden

Rating Outlook: Stable
The outlook reflects our expectation that the robust economic growth outlook and a promising external position will continue. Additionally, the outlook also factors in the government's focus to improve its fiscal profile. The federal government's budget, presented in October 2024, aims to curb the fiscal deficit for the federal government to 3.8% of GDP and that for the general government to 3.4% of GDP by 2025. In the medium term, the Malaysian government aims to bring down the fiscal deficit to 3.0% and debt levels closer to 60% of GDP.

Upside scenario
A sharp improvement in debt to GDP, contingent liabilities, and interest payment burden could transition the rating to a higher level. In addition, continued higher than expected economic growth conditions could also drive the ratings on Malaysia.

Downside scenario

We could revise our outlook to negative if the level of indebtedness or contingent liabilities increase significantly. Slower than expected growth over the medium term may also weigh on the ratings. Any significant deterioration in external metrices due to volatile foreign portfolio outflows could also be a negative factor for the ratings.

Key Rating Drivers

Economic Structure & Resilience

Malaysia's economic assessment reflects its moderate economic size, healthy medium-term growth potential, and adequately diversified economy. The GDP per capita stood at USD34,864 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 favourable 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 grew 5.3% in July-September (Q3 2024) on a year-on-year basis driven by strong investment activity, favourable exports and improved household spending. In the first three quarters of 2024, economic growth averaged 5.1%. GDP growth is projected to average 4.5% (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 55.6% of GDP in 2018 to 69.8% 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 decline in revenue mobilization. Revenue as a percent of GDP has not recovered to pre-pandemic levels (21.6% of GDP in 2019) and has declined to 19.6% in 2023. Additionally, the government's ongoing reliance on petroleum-related revenues makes it vulnerable to commodity price volatility. Costly and poorly targeted food and fuel subsidies (which the government plans to rationalise) also exacerbate fiscal strains.

Furthermore, sizable, committed guarantees and high non-financial public sector debt pose contingent liability risks. The government's committed guarantees and other liabilities stood at a combined 19.8% of GDP in 2023. However, the favourable general government debt structure, with a high share of domestic debt (~97%) and a long maturity debt profile, are important mitigating factors.

The passage of the Fiscal Responsibility Act in 2023 and the proposals in Budget 2025 are important steps towards enhancing fiscal sustainability. Some of the measures introduced by the government to increase revenue collections are expanding the scope of Sales and Services Tax from May 2025 by adding some services and non-essential goods under its purview. From assessment year 2025, 2% tax will be charged on dividend income exceeding Malaysian Ringgit 100,000 received by individuals in Malaysia as well as non-residents.

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 over 5 months of imports.

Malaysia's externally held debt is, however, moderately high (~65% of GDP in 2023) with a relatively high share ~43% of short-term liabilities. Nearly half of the short-term external debt arises from intragroup borrowings by banks and corporates, reducing 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 1.9% in Q32024.

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, elevated level of household private debt at 84% of GDP in 2023 is a risk factor that warrants 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**
Economic Indicators									
Nominal GDP	USD Billion	359	365	337	374	408	400	440	488
GDP Per Capita (Constant-PPP)	USD	30,957	32,184	30,499	31,385	34,087	34,864	36,099	37,247
Real GDP Growth	%	4.8	4.4	-5.5	3.3	8.9	3.6	4.8	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	29.3	30.7	27.5	-	-
Exports (G&S)/GDP	%	68.6	65.3	61.6	70.6	77.0	68.6	-	-
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
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-2.6	-2.0	-4.9	-6.0	-4.8	-4.6	-3.6	-3.5
Revenue/GDP	%	20.2	21.6	20.1	18.4	19.8	19.6	18.2	17.6
Expenditure/GDP	%	22.8	23.6	25.0	24.5	24.6	24.2	21.8	21.1
GG Gross Debt/GDP	%	55.6	57.1	67.7	69.2	65.5	69.8	68.4	68.1
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	-	-
External Indicators									
Current Account Balance/GDP	%	2.2	3.5	4.2	3.9	3.1	1.5	2.6	2.8
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	36.5	-	-
NIIP/GDP	%	-4.9	-2.6	5.9	5.8	3.0	6.7	-	-
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	-	-
Monetary and Financial Indicators									
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

Solicitation Status
The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating (Long Term Foreign Currency)	Unsolicited	CareEdge A-/ Stable	November 29, 2024
Issuer Rating (Long Term Foreign Currency)	Unsolicited	CareEdge A-	October 3, 2024

Criteria Applied
CareEdge Sovereign Rating Methodology

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