RAM
RATINGS

Media Release

RAM Ratings: Malaysia's $_gA_2$ rating reaffirmed as fiscal consolidation balances external volatility

RAM Ratings has reaffirmed Malaysia's respective global and ASEAN-scale sovereign ratings of $_gA_2$/stable and $_{sea}$AAA/stable. The ratings reflect the country's resilient economic growth and the Government's fiscal consolidation efforts. Although Malaysia's external-resilience parameters have worsened amid a sustained decline in commodity prices and in view of the country's reduced forex reserves, they are still supportive of its current ratings. Malaysia's ratings remained constrained by high government and household debt levels.

Malaysia's economy is forecasted to expand at a marginally faster pace of 4.5% in 2017 from an estimated 4.2% in 2016, underpinned by growing private domestic demand and a diversified economic structure. "This pace of economic activity remains resilient despite various growth headwinds, which include the increase in prices of various consumer goods, persistent depreciation of the ringgit and heightened global risk aversion to emerging markets," observes Esther Lai, RAM's Head of Sovereign Ratings.

Malaysia's current account surplus is expected to remain in surplus at 1.0% of GDP in 2017 (2016 estimate: 1.3%). The narrower surplus is attributable to sustained demand for capital imports and low oil prices. Recent increased global risk aversion had caused significant capital volatility, which may pose a concern to Malaysia's external resilience. Amid this volatility, Bank Negara Malaysia (BNM) has made adjustments to foreign exchange administration rules which are aimed at improving domestic onshore ringgit liquidity. These measures remain consistent with BNM's mandate of limiting excessive volatility in the onshore ringgit market.

The Government's fiscal deficit is expected to be maintained at 3.1% of GDP in 2017 – slightly higher than the Government's 3.0% target – following various consolidation measures implemented since 2010 (2009: 6.7%). These efforts were continued in 2016 as fiscal expenditure on supplies and services declined substantially to an estimated 2.4% of GDP from the 2004-2015 average of 3.2%. While this signals the Government's commitment to its long-term near-balance budget target by 2020, it will require additional revenue measures given that low oil prices are anticipated to persist over the medium term.

RAM Rating Services Berhad
(763588-T)
Suite 20.01, Level 20
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
T +603 7628 1000
+603 2299 1000
F +603 7620 8251
E ramratings@ram.com.my
W www.ram.com.my

Federal government debt is expected to decline to 52.0% of GDP in 2017 from 53.4% in September 2016 due to fiscal consolidation efforts and the transfer of debt off balance sheet. Adjusted government debt, which includes debt (both guaranteed and non-guaranteed) issued by strategic public sector entities, is estimated to reach 66.4% of GDP by end-2016. This level is higher than that of regional peers and is a key moderating factor of the ratings. That said, the debt structure remains favourable, as most of the papers are denominated in ringgit (96.5%) and are generally long-tenured. The bulk of adjusted debt is backed by long-term, income-generating assets. Correspondingly, the Government's sizeable debt burden will increase debt service cost and transfers, which will constrain its fiscal space.

Amid still very volatile external conditions, Malaysia's ratings could be revised downwards if its fiscal position deteriorates as a result of rising on and off balance sheet debt. Similarly, the ratings could face pressure if there is a persistent current-account deficit or if there are significant deviations in the country's economic or fiscal reforms.

Analytical contact
Jason Fong
(603) 7628 1103
jason@ram.com.my

Media contact
Padthma Subbiah
(603) 7628 1162
padthma@ram.com.my

Date of release: 4 January 2017

Published by RAM Rating Services Berhad