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Media Release

RAM Ratings reaffirms Malaysia's $_{g}A_{2}$ rating

RAM Ratings has reaffirmed Malaysia's respective global, ASEAN and Malaysia domestic-scale sovereign ratings of $_{g}A_{2}$/stable/$_{g}$P1, $_{sea}$AAA/stable/$_{sea}$P1 and AAA/stable/P1. The ratings reflect the country's resilient economic growth and the Government's fiscal consolidation efforts. Malaysia's external indicators are still supportive of its current ratings, although high government and household debt levels remain concerns.

Malaysia's economic growth, estimated at 5.8% in 2017, exceeds our initial expectation of 4.5% due to rapid export growth amid a broad based recovery in global economic conditions. Resilient growth in 2017 is also indicative of the domestic economy adjusting to previous structural reforms. In 2018, growth is projected at 5.2% as domestic demand conditions will remain the key driver of growth, supported by various household income measures. These include a reduction in personal income tax rates, a larger disbursement of civil servant cash transfers and a scheduled minimum wage hike. Further, investment demand is anticipated to improve amid a broad-based capacity build up across various sectors and ongoing large development projects.

In line with robust global economic conditions, Malaysia's current-account surplus is estimated at 2.4% of GDP for 2017, outperforming our initial forecast of 1.0%. While adjustments to Foreign Exchange Administration regulations had caused significant outflows in 1H 2017, the pace of net capital withdrawals has started to ease, as evidenced by a gradual rebound in foreign exchange reserves. The current account is expected to remain in surplus at 2.0% of GDP in 2018 amid continued global demand growth. That said, Malaysia's import demand is projected to accelerate between 2019 and 2021, premised on our expectation of existing and upcoming infrastructure projects, and may lead to some narrowing of its current account surplus during this period.

Elsewhere, the Government's fiscal deficit target of 2.8% of GDP under Budget 2018, compared to an estimated 3.0% of GDP in 2017, is achievable given economic conditions as well as gradual recovery in the oil price, and underscores its commitment to long-term fiscal consolidation. Although the likelihood of overspending is higher in the lead-up to the 14th General Election, there has been some evidence of improved budgetary discipline in recent years. Notably, fiscal slippage in respect of emoluments is envisaged to decline considerably, while spending on supplies and services was kept at 2.4% of GDP in 2016 and 2017 (2010-2015 average: 3.2%).

Meanwhile, federal government debt remains elevated despite an anticipated decline in the debt level to 50.3% of GDP by end-2018 (2017 estimate: 51.2%). The Government's debt burden translates into a relatively high debt service-to-revenue ratio of 12.9% in 2018 – higher than those of Malaysia's peers in the region (Thailand: 4.7%; Indonesia 11.7%). Similarly, the Government's contingent liabilities stayed significant at 16.9% of GDP in 1H 2017, posing a continuous risk to its fiscal position. This ratio is estimated to rise to 18.4% by 2023, due to the development of large projects as well as the Government's routine commitments to housing and higher-education loan agencies.

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